ASEAN+3 BOND MARKET GUIDE

EXCHANGE BOND MARKET IN THE PEOPLE'S REPUBLIC OF CHINA

OCTOBER 2019

ASIAN DEVELOPMENT BANK

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Notes:
ADB recognizes "China" as the People's Republic of China.

In this report, international standards for naming conventions—International Organization for Standardization (ISO) 3166 for country codes and ISO 4217 for currency codes—are used to reflect the discussions of the ASEAN+3 Bond Market Forum to promote and support implementation of international standards in financial transactions in the region. ASEAN+3 comprises the Association of Southeast Asian Nations (ASEAN) plus the People’s Republic of China, Japan, and the Republic of Korea.

The economies of ASEAN+3 as defined in ISO 3166 include Brunei Darussalam (BN; BRN); Cambodia (KH; KHM); the People’s Republic of China (CH; CHN); Hong Kong, China (HK; HKG); Indonesia (ID; IDN); Japan (JP; JPN); the Republic of Korea (KR; KOR); the Lao People’s Democratic Republic (LA; LAO); Malaysia (MY; MYS); Myanmar (MM; MMR); the Philippines (PH; PHL); Singapore (SG; SGP); Thailand (TH; THA); and Viet Nam (VN; VNM). The currencies of ASEAN+3 as defined in ISO 4217 include the Brunei dollar (BND), Cambodian riel (KHR), Chinese renminbi (CNY), Hong Kong dollar (HKD), Indonesian rupiah (IDR), Japanese yen (JPY), Korean won (KRW), Lao kip (LAK), Malaysian ringgit (MYR), Myanmar kyat (MMK), Philippine peso (PHP), Singapore dollar (SGD), Thai baht (THB), and Vietnamese dong (VND).

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Foreword

The Asian Development Bank is working closely with the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea—collectively known as ASEAN+3—to develop local currency bond markets and facilitate regional bond market integration under the Asian Bond Markets Initiative for development of the region's resilient financial systems.

Thanks to the efforts of member governments, local currency bond markets in ASEAN, the People's Republic of China, and the Republic of Korea have grown rapidly, with the total outstanding amount of bonds reaching more than USD15 trillion in the first quarter of 2019. Despite this remarkable development, intraregional investment in bond markets has remained subdued. As the Asian Development Bank has estimated that developing Asia will need to invest USD26 trillion from 2016 to 2030 (or USD1.7 trillion per year) in infrastructure for its continued growth, it is critical to mobilize the region's vast savings for the enormous investment needs. As an essential platform for such resource mobilization, financial markets in ASEAN+3 need to be more harmonized for better integration. Also, regional efforts should support developing member countries at the early stages of market development.

The ASEAN+3 Bond Market Forum (ABMF) was established with the endorsement of the ASEAN+3 finance ministers in 2010 as a common platform to foster the standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. As an initial step, ABMF published the ASEAN+3 Bond Market Guide in 2012, which was welcomed as the first official information source offering a comprehensive explanation of the region's bond markets.

Since publication of the ASEAN+3 Bond Market Guide, bond markets in the region have continued to develop. ABMF recognizes the need for revisions to the guide to reflect these changes, though it is never an easy task to keep up with rapid changes in the markets. This report is an outcome of the strong support and contributions of ABMF members and experts, particularly from the People's Republic of China. The report should be recognized as a joint product to support bond market development among ASEAN+3 members. It is our hope that the revised ASEAN+3 Bond Market Guide will facilitate further development of the region's bond markets, contribute to increased intraregional bond transactions, and promote efficient capital allocation within the region.

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Economic Research and Regional Cooperation Department

Acknowledgments

The ASEAN+3 Bond Market Guide was first published in 2012 as the initial output of Phase 1 of the ASEAN+3 Bond Market Forum (ABMF).[1] Across the region, domestic bond markets, including the bond market in the People's Republic of China (PRC), have experienced tremendous development over the past 7 years. Now in Phase 3, ABMF would like to share, in the public domain, information on these developments by publishing an update on the PRC bond market, with a particular focus on the exchange bond market.

The ABMF Sub-Forum 1 team—comprising Satoru Yamadera (Principal Financial Sector Specialist, Asian Development Bank [ADB], Economic Research and Regional Cooperation Department); Kosintr Puongsophol (Financial Sector Specialist, ADB, Economic Research and Regional Cooperation Department); and ADB consultants Shigehito Inukai and Matthias Schmidt, together with ABMF International Expert Hirohiko Suzuki—would like to stress the significance and magnitude of the contributions made by ABMF national members and experts from the PRC, including the China Securities Depository and Clearing Co., Ltd.; the China Securities Index Co., Ltd.; the Securities Association of China; the Shanghai Stock Exchange's Fixed Income Center; the Shenzhen Securities Information Co., Ltd.; and the Fixed Income Department of the Shenzhen Stock Exchange.

The ADB team would also like to express its special thanks to the Corporate Bond Supervision Department of the China Securities Regulatory Commission. These policy bodies, regulatory authorities, and market institutions generously gave their time for market visit meetings, discussions, and follow-up. They have also reviewed and provided inputs on the draft ASEAN+3 Bond Market Guide for the Exchange Bond Market in the People's Republic of China over the course of ABMF Phase 3.

No part of this report represents the official views or opinions of any institution that participated in this activity as an ABMF member, observer, or expert. The ABMF Sub-Forum 1 team bears sole responsibility for the contents of this report.

October 2019

ASEAN+3 Bond Market Forum

[1] ASEAN+3 refers to the 10 members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

Abbreviations

ABMF	ASEAN+3 Bond Market Forum
ABS	asset-backed securities
ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
AMBIF	ASEAN+3 Multi-Currency Bond Issuance Framework
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CCDC	China Clearing & Settlement Co., Ltd. (Chinabond)
CDB	China Development Bank
CFETS	China Foreign Exchange Trade System
CGIF	Credit Guarantee and Investment Fund
CIBM	China Inter-Bank Bond Market
CNY	Chinese renminbi (ISO code)
CRA	credit rating agency
CSDC	China Securities Depository and Clearing Co., Ltd. (Chinaclear)
CSI	China Securities Index Co., Ltd
CSRC	China Securities Regulatory Commission
DTA	double taxation agreement
EXIM	Export–Import Bank of China
FSDC	Financial Stability and Development Commission
IPO	initial public offering
MTN	medium-term note
MOF	Ministry of Finance
NAFMII	National Association of Financial Market Institutional Investors
NCD	negotiable certificate of deposit
NDRC	National Development and Reform Commission
NEEQ	National Equities Exchange and Quotations
NGTS	New Generation Trading System
OTC	over-the-counter
PBOC	People's Bank of China
PDF	portable document format
PFBs	Policy Financial Bonds
PPN	Private Placement Note
PRC	People's Republic of China
QFII	Qualified Foreign Institutional Investor
QII	Qualified Institutional Investor
RMB	Chinese renminbi
RQFII	Renminbi Qualified Foreign Institutional Investor
SAC	Securities Association of China
SAFE	State Administration of Foreign Exchange
SF1	Sub-Forum 1 of ABMF
SF2	Sub-Forum 2 of ABMF
SHCH	Shanghai Clearing House Co., Ltd.
SME	small and medium-sized enterprise
SOE	state-owned enterprise
SPV	special purpose vehicle
SRO	self-regulatory organization
SSE	Shanghai Stock Exchange
SSRE	Substantial Shareholder Reporting Entity
SZSE	Shenzhen Stock Exchange
USD	United States dollar (ISO code)
VAT	value-added tax
WHT	withholding tax

I

Overview

A. Overview of Bond Market Segments

The bond market in the People's Republic of China (PRC) is divided into four categories: (i) the China Inter-Bank Bond Market (CIBM), (ii) the exchange bond market, (iii) the commercial banks' counter market, and (iv) the Free Trade Zone bond market. Considering the scale of these market segments, the CIBM and the exchange bond market are the dominant segments; together with the commercial banks' counter market, they represent the market segments of note (Table 1.1).

Due to the separate legal, regulatory, and institutional frameworks of the respective market segments, each segment is recognized as a complete market in its own right; at the same time, however, these market segments complement, interconnect with, and complete each other. This bond market guide describes the exchange bond market as one of the two market segments in the PRC accessible to foreign investors.

Before 2015, only listed companies were able to issue corporate bonds in the exchange market; hence, Shanghai Stock Exchange (SSE)-listed companies issued bonds on the SSE, and SZSE-listed companies issued bonds on the Shenzhen Stock Exchange (SZSE). In 2015, the China Securities Regulatory Commission (CSRC) introduced Measures for the Administration of Corporate Bond Offering and Trading (No. 113) (公司债券发行与交易管理办法) (hereafter, 2015 measures). Market participants refer to these measures as the "New Deal." Since then, all companies have been able to issue, list, and trade corporate bonds on the SSE and/or the SZSE.

Debt securities issued and traded on both exchanges are held by the China Securities Depository and Clearing Co., Ltd. (CSDC). In contrast, the debt financing instruments issued, traded, and settled in the CIBM largely consist of public sector bonds and private sector instruments, which are held by the China Central Depository & Clearing Co., Ltd. (CCDC) and the Shanghai Clearing House Co., Ltd. (SHCH), respectively. Two-thirds of the private sector instruments deposited with SHCH are money market instruments.

It is notable that the scale and style of regulation differs between the CIBM and the exchange bond market. Historically, each market has adopted different standards for setting regulations. In the CIBM, under the mandate and supervision of the People's Bank of China (PBOC), the National Association of Financial Market Institutional Investors (NAFMII) substantially regulates the market. In the exchange bond market, CSRC and self-regulatory organizations (SROs)—including the Securities Association of China (SAC) as the general SRO and the stock exchanges as the listing and trading authorities—cooperate on regulations and cover different regulatory objectives. It is noteworthy that listing and trading in the exchange bond market falls under the unified guidance of CSRC, which has resulted in the establishment of similar and consistent rules at both exchanges.

Table 1.1: Major Bond Market Segments in the People's Republic of China

Feature	Exchange Bond Market	Inter-Bank Bond Market (over-the-counter market)	Commercial Banks' Counter Market
Main regulator	China Securities Regulatory Commission	People's Bank of China (PBOC)	PBOC
Self-regulatory organization (SRO)	Securities Association of China (general SRO); Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) (listing and trading authority SROs)	National Association of Financial Market Institutional Investors (SRO)	N.A.
Trading	SSE and SZSE; National Equities Exchange and Quotations	China Foreign Exchange Trade System	Commercial banks
Central securities depository	China Securities Depository and Clearing Co., Ltd. (Chinaclear)	China Central Depository & Clearing Co., Ltd. (CCDC, or Chinabond); Shanghai Clearing House (SHCH)	Commercial banks
Available debt securities or debt financing instruments	Government bonds (Treasury bonds), local government bonds, policy financial bonds, government-backed (agency) bonds (e.g., railway bonds), enterprise bonds, securities company bonds and short-term notes, corporate bonds and exchangeable corporate bonds, convertible bonds, asset-backed securities, repurchase agreements	In CCDC: government bonds (Treasury bonds), local government bonds, central bank bills, enterprise bonds, financial bonds (commercial bank bonds); In SHCH: medium-term notes, commercial paper, super short-term commercial paper, private placement notes, small and medium-sized enterprise collective notes, asset-backed notes, project revenue notes, asset-backed securities; Panda bonds, green debt financing tools, special drawing rights-denominated bonds; negotiable certificates of deposit; In CCDC and SHCH: policy bank financial bonds, financial bonds (non-bank financial institution bonds), government-backed (agency) bonds, repurchase agreements	Government bonds, local government bonds, policy financial bonds (applies to both book-entry and certificated bonds)
Key investors	Banks, small and medium-sized institutional investors (e.g., securities companies, insurance companies, funds, financial companies, qualified individual investors, enterprises), QFII and RQFII, and individuals (very limited)	Institutional investors (e.g., overseas central banks, international financial organizations, sovereign wealth funds, banks, funds, insurance companies, rural credit cooperatives, securities companies, financial companies, enterprises, overseas institutions, QFII and RQFII (after May 2013), QOII (after February 2016)	Individual investors, small enterprise investors

N.A. = not applicable, QFII = Qualified Foreign Institutional Investor, QOII = Qualified Overseas Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor.

Source: Deutsche Bank (partly amended by ABMF SF1 compilation based on ABMF member input).

As another example of rules and regulations that differ between markets, bonds issued in the exchange bond market are legally defined as securities under the Securities Law, but such debt instruments issued in the CIBM are not regarded as securities; hence, they are referred to as debt financing instruments. This is due to the legacy of the different regulatory systems in the PRC.

Regardless of which market they are issued in, the economic nature of these instruments is the same. In order to prevent participants in these two markets from experiencing any disadvantage, cooperation between the supervisory authorities for both markets is intended to gradually improve the comparability of their respective regulatory environments (see also section B.1 in this chapter). The Financial Stability and Development Commission (FSDC) was established in 2017 to support this purpose and is a reflection of the joint efforts of policy makers in the PRC (see also Chapter IX.A.1).

At the same time, an increase in transactions between these two markets has also been observed, particularly among professional participants, including both issuers and investors. The technical term used for this type of transaction is cross-market transfer (see also Chapter III.H.1 and L.1, or Chapter IV.B.1, for a description of this market feature). Qualified Overseas Institutional Investors are able to carry out trading in the exchange bond market as well as in the CIBM via securities companies who are both stock exchange members and designated bond settlement agents in the CIBM.

B. Introduction to the Exchange Bond Market

The exchange bond market has traditionally served as the general and retail investor-oriented market in which small and medium-sized institutional investors were the main participants. However, following the so-called New Deal in 2015 (see below), which was essentially a corporate bond market reform, the exchange bond market very much became an institutionalized and professional investor-oriented market that is getting closer to the CIBM in terms of its economic characteristics. The recent views of market participants indicate that the usability of the exchange bond market has improved to become closer to that of the CIBM.

The exchange bond market can be regarded as the foremost corporate bond market in the PRC. From the point of corporate bond sector development, the exchange bond market will also play a more important role in the future. The exchange bond market includes the trading of debt securities on the SSE and the SZSE; the role and functions of these two exchanges are explained in Chapter II. Please see Chapter IV for a description of the exchange trading platforms and the trading of debt securities and related practices.

In the 2015 measures, CSRC delegated the examination of the issuance suitability of corporate bonds to both the SSE and the SZSE, in addition to the listing review process.[1] As long as the mandated information disclosure is complied with, approvals will be granted by either CSRC or the respective exchange, depending on the targeted issuance methods.

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[1] CSRC. 2015. Measures for the Administration of Corporate Bond Offering and Trading (No. 113, 2015; 公司债券发行与交易管理办法). The Chinese version can be accessed via the Government of the PRC's website at
http://www.gov.cn/zhuanti/2015-12/14/content_5023855.htm or in PDF format at
http://www.gov.cn/zhuanti/2015-12/14/5023855/files/c8fd5fb6bff945179e10930315d1aaed.pdf.

The measures covered not only the issuance of corporate bonds that meet the prescribed credit standing requirements and can be publicly offered to public (general and retail) investors (公众投资者), but also publicly offered corporate bonds that, at the issuer's discretion, can be offered to a new category of Qualified Investors (合格投资者) (professional investors). The measures also introduced the issuance of non-publicly (privately) placed corporate bonds to be issued to eligible Qualified Investors (合格投资者).

Subsequently, as part of the implementation efforts following the measures, both the SSE and SZSE introduced their respective Measures for the Suitability Management of Investors in the Bond Market (证券交易所债券市场投资者适当性管理办法) in 2017, under which bond market investors are classified as either Qualified Investors (合格投资者) or public investors (公众投资者) based on their product risk identification capabilities and risk tolerance.

Under these new measures, the issuance, trading, and transfer of corporate bonds is tightly regulated and supervised by CSRC and the SAC, together with the two stock exchanges, in order to protect investors without sacrificing the usability of market provisions.

The 2015 exchange bond market reform strengthened the role of the bond market in serving the real economy. Both the exchange bond market’s scale and quality have improved greatly since then. The measures also introduced the National Equities Exchange and Quotations (NEEQ) as a potential additional listing and trading place for debt securities for the benefit of issuers and investors; though, as of May 2019, NEEQ had not yet been active for this purpose.

The issuance of corporate bonds shall be underwritten by a securities company with securities underwriting business qualifications. Securities companies, the China Securities Finance Co., Ltd., and other institutions recognized by CSRC that are eligible for securities underwriting business may sell their own non-publicly placed corporate bonds.

In recent years, corporate bond issuances in the exchange bond market have been trending toward offerings only to professional investors. When issuing non-publicly (privately) placed corporate bonds in the exchange bond market, CSRC-accredited institutions need not appoint an underwriter, yet an underwriter is typically appointed in almost all cases. At the same time, the appointment of a bond trustee is virtually indispensable under SRO rules and guidelines.

The participation of individual investors in the exchange bond market is still very limited. At the same time, individual investors can acquire those bonds, including Panda bonds, that carry a AAA rating on the domestic rating scale. The domestic rating scale cannot directly be compared to the international rating scale. International credit rating agencies (CRAs) that are now entering the PRC bond market have committed to adjust their processes to domestic market needs in order to ensure compatibility with legacy ratings. For more information on credit rating requirements in the exchange bond market, please refer to Chapter III.O.

In 2016, guided by the idea of “placing equal emphasis on development and risk control,” and in accordance with guidance from the government and policy makers, the exchange bond market implemented the five development principles of “innovation, coordination, eco-friendly development, openness, and sharing.” These principles supported supply-side structural reforms and helped corporates and enterprises in cutting overcapacity, and allowed for destocking and deleveraging, and the reduction of costs.

Implementing stricter and more comprehensive regulations, CSRC also stepped up frontline supervision of market participants, reinforced risk controls, and played a positive role in serving the real economy by reducing corporate financing costs and preventing systemic risks. With regard to market intermediaries, trading parties, and other professional securities market participants, the China Banking and Insurance Regulatory Commission (CBIRC) is responsible for banks and insurance companies, while CSRC is responsible for the securities exchanges, securities companies, various investment funds, as well as CRAs and bond trustees.

The next few sections emphasize key exchange bond market features and noteworthy initiatives over the past 3–5 years that have had an impact on the development of the exchange bond market.

1. Seeking Streamlined and Standardized Regulations in the Bond Market

Efforts among the policy bodies and regulatory authorities to streamline and standardize regulations within the different market segments of the PRC bond market have led to a number of significant initiatives over the past several years.

Standardized regulation is defined as (i) standardized and effective regulation over different markets; (ii) standardized disclosure rules, standardized general and public (retail) investor protection, and professional investor-related rules; and (iii) standardized and effective enforcement rules for the operating organizations (market intermediaries and other market professionals) that are focused on their conduct.

In order to attain this policy objective, the State Council issued the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium-Sized Investors in the Capital Market (No. 110, 2013) (国务院办公厅关于进一步加强资本市场中小投资者合法权益保护工作的意见), and the Opinions of the State Council on Further Promoting the Healthy Development of Capital Markets (No. 17, 2014) (国务院关于进一步促进资本市场健康发展的若干意见).

Following the issuance of the above opinions, the Measures for the Administration of the Suitability of Securities and Futures Investors (No. 130, 2016) (证券期货投资者适当性管理办法) were introduced in order to strengthen the appropriate obligations of the operating institutions (here, securities companies) and the safeguarding of the legitimate rights and interests of investors.[2]

2. Formation of Professional (Qualified) Investors Concept

These measures created the basis of a tiered investor classification system and allowed for the unification of investor classification standards and corresponding investor management requirements.

The measures divide investors into two overall categories—ordinary (public) and professional (qualified) investors—and stipulates the scope of professional (qualified) investors, which consist of Qualified Institutional Investors (QIIs) and high-net-worth individuals. They also made clear the conditions and procedures for the transition from ordinary (public) investors to professional (qualified) investors, and vice versa, and stipulated that operating financial institutions can classify investors if they establish and maintain an internal management system for the classification process.

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[2] An explanation of the measures may be found on the CSRC website at http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201706/t20170628_319266.html; the actual text of the measures is available at http://www.csrc.gov.cn/pub/newsite/qhjgb/qhbzcfg/201805/t20180503_337641.html.

Furthermore, these measures have standardized the market, product, and service access requirements for specific investor types, with due consideration of risk factors and other basic requirements. However, in relation to the exchange bond market, these measures do not include the formal mechanism of "exempt securities" and/or "exempt transactions, " which represent typical descriptions of an issuance of debt securities to professional (qualified) investors under exemption(s) from full disclosure and approval requirements in a given market or market segment. Due to the strong risk management environment, current offerings to public investors and offerings to Qualified Investors require nearly the same level of disclosure information. Consequentially, many rules apply to offerings to Qualified Investors in the same manner as they do for publicly issued bonds.

While private placement products in the exchange bond market are only accessible for institutional investors following their listing on the exchange, and their disclosure requirements are lower and more flexible than those for public offerings, such an exemption policy has not been formalized in regulations.

In March 2017, Russian aluminum producer UC RUSAL issued CNY1 billion worth of Panda bonds with a series tenor of 2+1 years, becoming the first nonresident corporate with global operations outside of the PRC to enter the local currency bond market through a non-public placement on the SSE to QIIs under a shelf-registration of up to CNY10 billion. This issue was fully guaranteed by a guarantee institution in the PRC and given a AAA credit rating on the domestic rating scale by a domestic rating agency.[3] The issuance marked the first privately placed Panda bonds issued in the PRC by a firm from a country participating in the Belt and Road Initiative (see also next section).

3. Strengthening of the Panda Bond Issuance Concept

In 2018, the Interim Measures for Panda Bond Issuance in the CIBM introduced an "exempt mechanism" for non-public placement to QIIs.[4] The codification of the criteria for a placement to QIIs (i.e., privately placed Panda bonds) in these interim measures provides clarity and more opportunities for foreign issuers looking to access this significant market. Please also see details on the 2018 interim measures in Chapter IX or refer to the list of regulations in Appendix 3.

For the foreign issuers of Panda bonds, this new method will make the issuance process much simpler and closer to practices in international bond markets, including through the use of English language documentation. The 2018 Interim Measures for Panda Bond Issuance are intended to internationalize the domestic bond market of the PRC by aligning such market(s) with global bond markets to attract international professional participants to the Panda bond market.

To achieve similar treatment for Panda bond issuance in the exchange bond market, in March 2018, the SSE and SZSE jointly released the Notice on Launching the Pilot Program of Belt and Road Bonds, stipulating the requirements for issuances by enterprises and financial institutions from participating Belt and Road countries and regions, and for Panda bond listing, trading, and information disclosure on the exchanges.

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[3] See details from the issuer's press release at https://rusal.ru/en/press-center/press-releases/17012/.

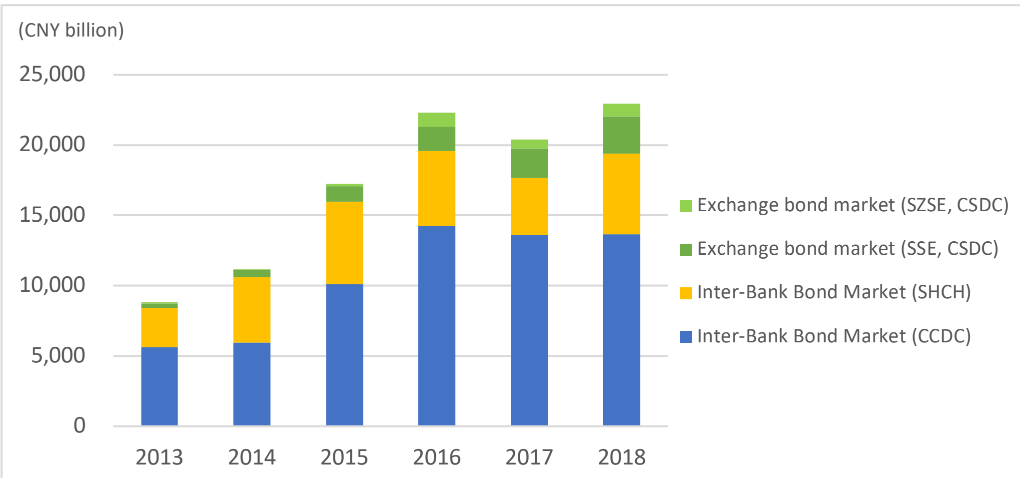
[4] In September 2018, the PBOC and the Ministry of Finance (MOF) jointly issued the Provisional Measures for the Administration on Bond Issuances by Foreign Entities in the CIBM (全国银行间债券市场境外机构债券发行管理暂行办法) (No.16). At the same time, the previous Interim Measures for Administration of Issuing Renminbi Bonds by International Development Institutions (No. 10)—which were jointly issued by the PBOC, MOF, NDRC, and CSRC in 2010—were formally abolished. Please also see details in Chapter IX or the list of regulations and links in the appendixes.

As of the end of May 2019, CSRC had drafted interim measures for the administration of issuing Panda bonds in the exchange bond market and was consulting with the relevant policy bodies, including the Ministry of Finance (MOF), on the release of the proposed measures.

4. Bond Issuance in the Exchange Bond Market

In 2018, bond issuance in the exchange bond market represented 15.5% of all bond issuance activities in the PRC (Figure 1.1).

Figure 1.1: Bond Issuance in the PRC by Major Bond Market Segment

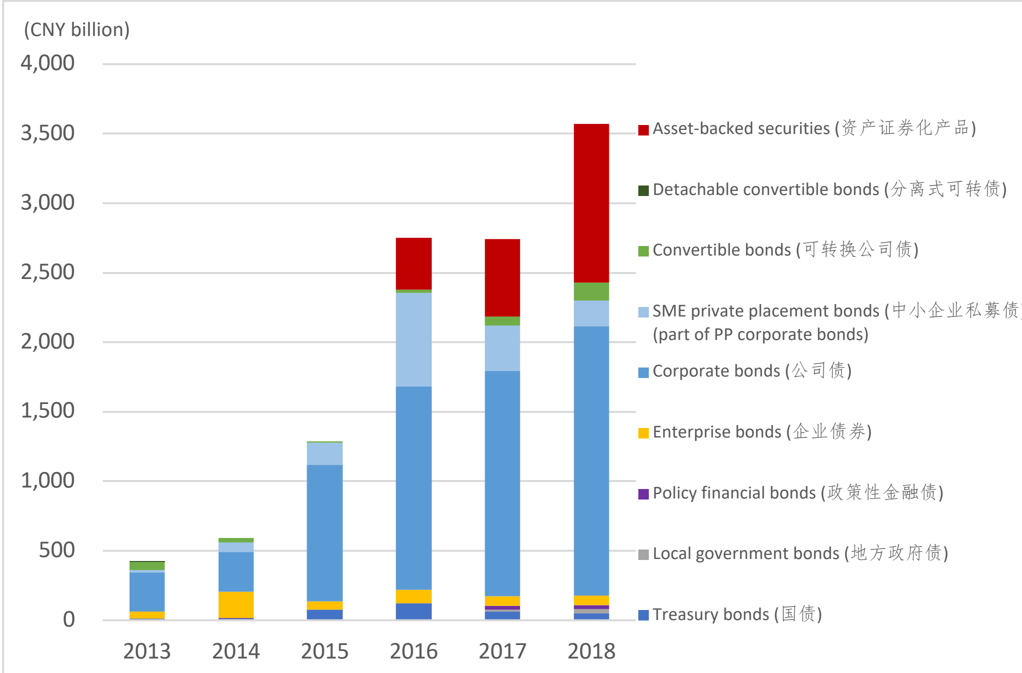


CCDC = China Central Depository & Clearing Co., Ltd.; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Note: Statistics for SHCH do not include negotiable certificates of deposit.
Sources: CCDC, CSDC, SHCH, SSE, and SZSE.

In 2015, CSRC and the exchanges led the implementation of a corporate bond reform effort, known as the New Deal, with the exchanges focusing on market-oriented reforms and development with risk controls.

As a result, total bond issuances at the SSE and SZSE increased sharply. Most years from 2015 to 2018 showed new annual highs (Figure 1.2). These issuances consisted in large part of bonds from the corporate sector in the form of large-sized publicly offered corporate bonds to ordinary investors and to Qualified Investors, small-sized non-publicly (privately) placed corporate bonds for Qualified Investors, and small and medium-sized enterprise (SME) private placement bonds. Following the implementation of the 2015 measures, SME private placement bonds were no longer distinguished as a separate bond variety; they have since been included under non-publicly (privately) placed corporate bonds.

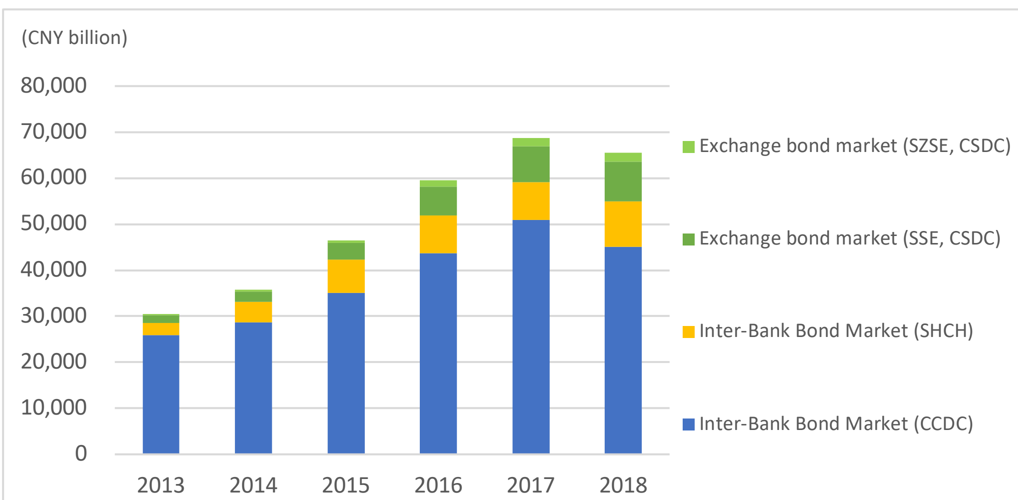
Figure 1.2: Bond Issuance (Par Value) in the PRC Exchange Bond Market



CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; PP = privately placed; SME = small and medium-sized enterprise.
Source: China Securities Depository and Clearing Co., Ltd.

5. Outstanding Balance of Bonds in the Exchange Bond Market

Figure 1.3: Bonds Outstanding in the PRC by Major Bond Market Segment

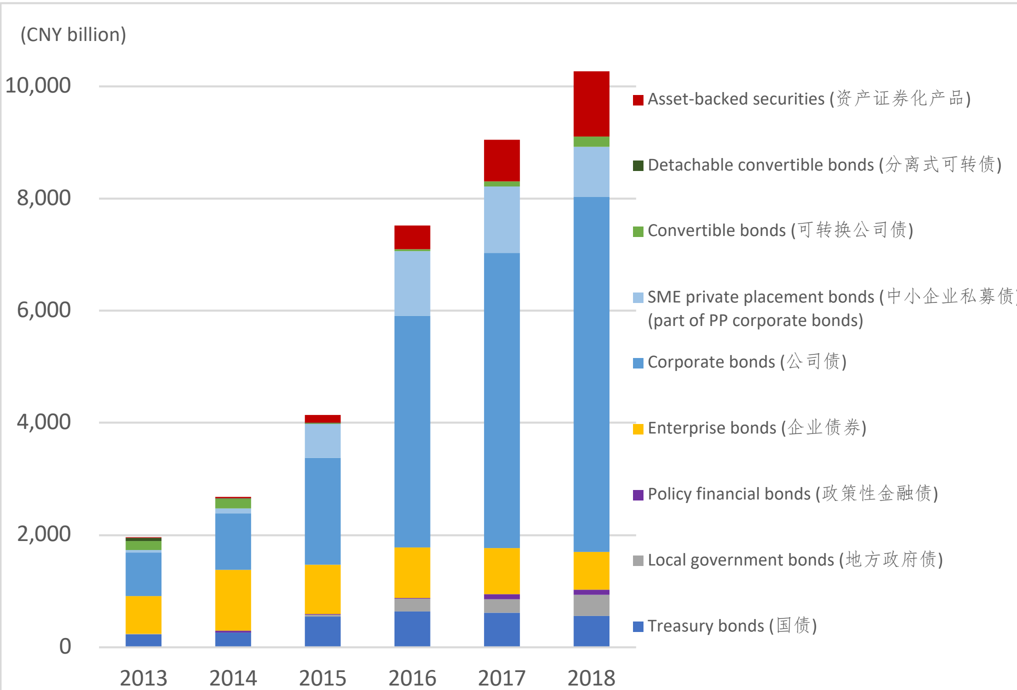


CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Notes: Bonds at par value. Statistics for the SHCH do not include negotiable certificates of deposit.
Sources: CCDC, CSDC, SHCH, SSE, and SZSE.

At the end of 2018, the outstanding balance in the exchange bond market (debt securities deposited at CSDC) represented 16.2% of the total outstanding balance of bonds deposited at the three securities depositories in the PRC (CCDC, CSDC, and SHCH) (Figure 1.3).

In the exchange bond market itself, the majority of issuers are from the corporate sector. Corporate bond issuance has shown a steady increase since corporate bond reform commenced in 2015. Currently, issuances from the corporate sector account for about 90% of the bonds outstanding in the exchange bond market (Figure 1.4).

Figure 1.4: Bonds Outstanding in the PRC Exchange Bond Market by Type



CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; PP = privately placed; SME = small and medium-sized enterprises.
Source: CSDC.

6. Corporate Bonds and Enterprise Bonds

Corporate bonds（公司债）are bonds issued by a company under the provisions of the Company Law. Originally, enterprise bonds（企业债）referred to the bonds issued by central government agencies, state-owned enterprises, and state-owned holding companies affiliated with the National Development and Reform Commission (NDRC). With the progress of privatization, the delineation between corporate bonds and enterprise bonds has become less strict. In general terms, enterprise bonds are categorized as corporate bonds and often called corporate bonds. They are principally treated the same under the listing and trading rules of the exchanges (see Chapter II.K for more information).

In principle and for the convenience of the readers of this bond market guide, bonds that need an application for registration with NDRC for issuance are called enterprise bonds, and bonds issued by other companies are distinguished as corporate bonds. Basically, both corporate bonds and enterprise bonds are issued based on the creditworthiness of the issuing companies themselves.

Please also see Chapter III.B for a description of the types of bonds issued in the exchange bond market.

7. Foreign Investors in the Exchange Bond Market

The exchange bond market has been a focus for investment by foreign investors since the introduction of the Qualified Foreign Institutional Investor (QFII) scheme in 2002. As one of the first efforts to internationalize the Chinese renminbi, the QFII scheme allowed eligible global institutional investors to directly invest in the CNY-denominated capital market on a selective basis.

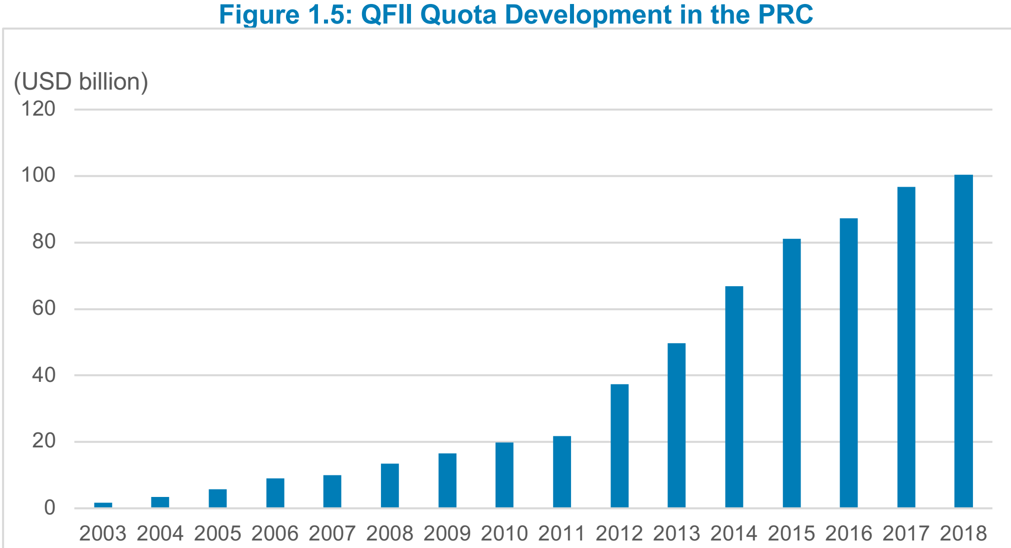
Once licensed by CSRC, QFII are permitted to buy, under a quota approved by the State Administration of Foreign Exchange (SAFE), CNY-denominated securities in the exchange market, including debt securities.

Under regulations effective 12 June 2018, a previously prescribed monthly repatriation limit of up to 20% of a QFII's assets was removed, as was the requirement for a 3-month capital lockup period for redeeming the investment principal for both QFII and Renminbi Qualified Foreign Institutional Investors (RQFIIs). Since the change, QFII and RQFII investors have also been allowed to place foreign exchange hedges in relation to their investments.

The first QFII licenses and quotas were awarded in 2003. As of June 2018, 287 QFII licenses had been granted, with a combined approved investment quota of USD100.5 billion (Figure 1.5). As of July 2018, the quotas in the RQFII program amounted to CNY1,740.0 billion.

In August 2018, CSRC announced additional measures to facilitate the further opening of the exchange market, indicating that the entry requirements for the QFII and RQFII programs would be relaxed, standardized, and further harmonized, and that the scope of investment would be expanded to include overseas funds.

Figure 1.5: QFII Quota Development in the PRC



PRC = People's Republic of China, USD = United States dollar.
Note: Data for 2018 as of 31 July.
Sources: State Administration of Foreign Exchange and Shanghai Stock Exchange.

Please see Chapter III.N for a detailed description of the QFII and RQFII concepts.

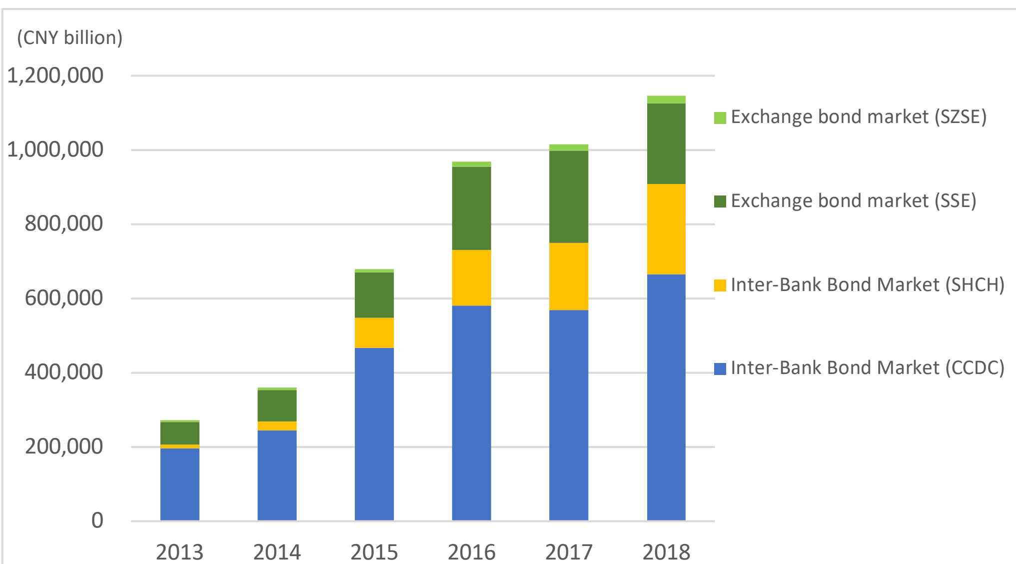
8. Trading of Bonds in the Exchange Bond Market

As of the end of 2018, the total bond trading and transaction volume in the exchange bond market had reached CNY237 trillion and represented 20.7% of all bond market trading and transactions in the PRC (Figure 1.6).

Repurchase (repo) transactions have grown significantly in the exchange bond market over the past 3 years. The transaction volume in the exchange bond market is influenced by a substantial number of intraday repo transactions. This is one of the reasons why the exchange bond market, its institutions, and the relevant statistics typically distinguish between so-called "cash bond" trades and repo, or bond lending, transactions. While cash bond is not necessarily a common international term, it signifies the outright buying and selling of debt securities, in contrast to the repo or lending transactions under bond market practices in the PRC, which typically represent pledge transactions, not the sale and (re-)purchase of debt securities.

Please also see Chapter IV.H for a description of the repo market within the exchange bond market, its participants, and practices.

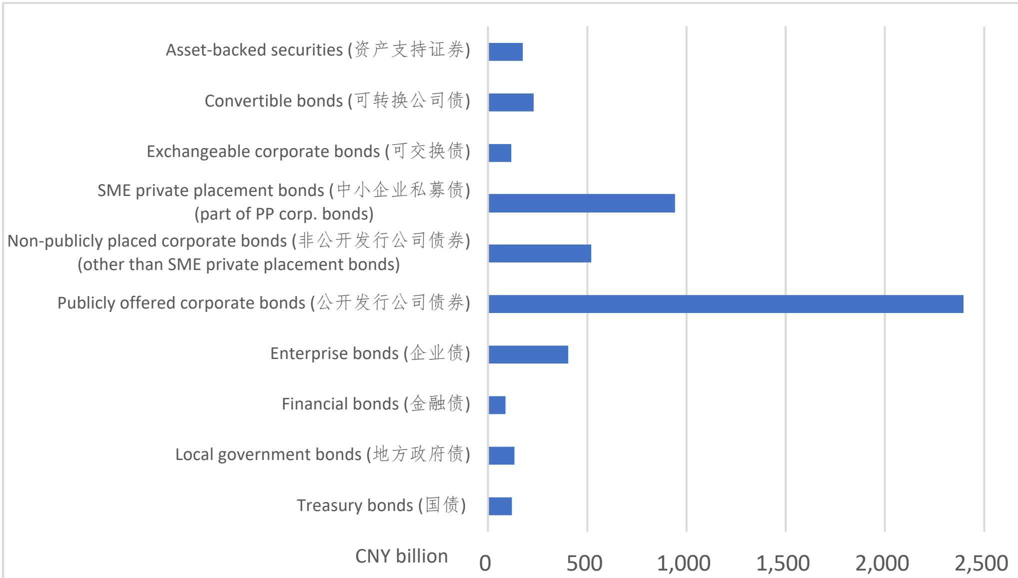
Figure 1.6: Cash Bond, NCD, Repo, and Bond Lending Volume by Major Bond Market Segment in the PRC



CCDC = China Central Depository & Clearing Co., Ltd.; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; NCD = negotiable certificate of deposit; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Note: Total trading volume includes new issues and transactions in money market instruments (NCDs) at SHCH.
Sources: CCDC, CSDC, SHCH, SSE, and SZSE.

Figure 1.7 shows the breakdown of trading volume on the SSE in 2018, by type of debt securities, as an example of trading activity in the exchange bond market. The significance of trading publicly offered corporate bonds and non-publicly placed corporate bonds (including those issued by SMEs) is clearly identifiable.

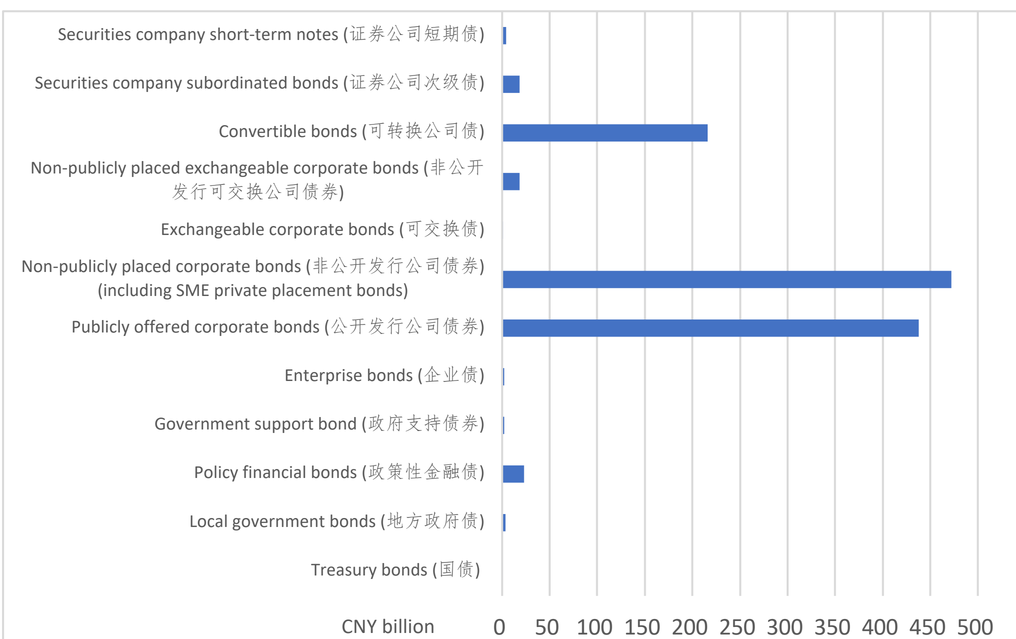
Figure 1.7: Cash Bond Trading Volume on the Shanghai Stock Exchange, 2018



CNY = Chinese renminbi, PP = privately placed, SME = small and medium-sized enterprise.
Source: Shanghai Stock Exchange. Web Bond Transaction Overview–Yearly. http://www.sse.com.cn/market/bonddata/overview/yearly/.

On the SZSE, the trading volume in 2018 focused on non-publicly offered bonds (private placements) in addition to the active trading of publicly offered corporate bonds; convertible bonds were also actively traded (Figure 1.8).

Figure 1.8: Cash Bond Trading Volume on the Shenzhen Stock Exchange, 2018



CNY = Chinese renminbi, PP = privately placed, SME = small and medium-sized enterprise.
Source: Shenzhen Stock Exchange (SZSE). SZSE Monthly Statistical Data, December 2018. http://docs.static.szse.cn/www/market/periodical/month/W020190107533437885539.html.

II

Legal and Regulatory Framework

A. Legal Tradition

The legal structure of the PRC follows the socialist legal system with Chinese characteristics guided by the Constitution of the People's Republic of China. The current version of the constitution was adopted in 1982, with further revisions in 1988, 1993, 1999, and 2004. The constitution was last amended on 11 March 2018. The legal framework is expressed through the Civil Law, commercial laws, and other laws.

B. English Translation

Laws and regulations in the PRC are generally published in Chinese, the official national language. Official publications use the simplified Chinese character set. Simplified Chinese characters, known as *ji ǎ nhuàzì* (简化字), are standardized Chinese characters prescribed in the Table of General Standard Chinese Characters for use in the PRC. Along with traditional Chinese characters, they are one of the two standard character sets of the contemporary Chinese written language. The Government of the PRC has promoted them for use in printing since the 1950s to encourage literacy. They are officially used in the PRC and Singapore.

In addition, the State Council, relevant ministries, stock exchanges, SROs, and market institutions provide official English translations of the related laws, regulations, and directives for which they are responsible. For example, the SSE and SZSE carry on their websites a selection of their respective listing and trading rules, as well as QFII regulations, in English.

Some market institutions provide unofficial English translations on the related laws, regulations, and directives under their own purview. These English translations are typically available from these institutions' websites, market observers, or the law departments of universities.[6]

Laws and regulations on securities and derivatives—including state laws, administrative laws, judicial interpretations, State Council department rules, and the rules of SROs—are available from the CSRC website, if only in Chinese.[7] CSRC has an English website and, hence, some English translations of laws and regulations may be available from this site. Otherwise, English translations of laws and regulations may be available from other official or private institutions.

While there may be no specific mention on these websites, only the versions of laws, regulations, and other regulatory instruments issued in Chinese are relied upon for matters before the courts. At the same time, translations of laws, regulations, and rules

[6] For example, Peking University Center for Legal Information (北大英华科技有限公司). http://en.pkulaw.cn/.
[7] CSRC. Laws and Regulations. http://www.csrc.gov.cn/pub/csrc_en/laws/rfdm/.

may result in the use of different terminology in English from what was intended in the original Chinese version. This has been observed particularly when it comes to the description of rules and regulations. As a result, this bond market guide also includes the title of institutions and major laws and regulations in Chinese characters to aid the reader in ensuring that the correct description of the institutions, laws, or regulations in question is provided.

Please also refer to Chapter III.H for additional information on this topic in the context of debt securities issuance documentation and see Appendix 5 for a list of Chinese technical terms and their interpretations in English.

C. Legislative Structure

The legal framework of the PRC bond market consists of laws, administrative regulations, department rules, business rules, and business agreements (Table 2.1). This structure applies to all bond market segments, including the exchange bond market.

Table 2.1: The People's Republic of China's Bond Market Legislative Structure

Legislative Structure	
First tier	Constitution
Second tier	Laws (prepared by the NPC or the NPC Standing Committee, with supreme legal force)
Third tier	Administrative regulations (issued by the State Council); local rules, local opinions (promulgated by local governments)
Fourth tier	Departmental rules (prepared by departments of the State Council, inclusive of bond market supervisory organization[s])
Fifth tier	Self-regulatory rules, industry provisions, business rules (issued by the SAC, the exchanges, and bond market infrastructure institutions such as CSDC)
Sixth tier	Business agreements (service agreements signed by and between the bond market infrastructure institutions and customers)

CSDC = China Securities Depository and Clearing Co., Ltd.; NPC = National People's Congress; SAC = Securities Association of China.
Source: ABMF SF1, based on China Depository & Clearing Co., Ltd. 2016. *China Bond Market Overview 2015*. Beijing.

Key legislation is the summary term for those laws aimed at a particular market such as the securities market or capital market. These laws establish and govern securities markets or market segments, including the bond market, its institutions, members, and participants. Laws are prepared by the National People's Congress (NPC) or the NPC Standing Committee; the laws on the bond market regulate and ensure the effective operation of the market.

Administrative regulations are issued by the State Council and contain market management rules. Administrative rules also include local rules promulgated by local governments, as may be applicable, and cover administrative measures on products, market participants, and other market features.

Departmental rules are categorized as administrative rules and promulgated by the ministries and commissions under the State Council, PBOC, Auditing Office, and other departments with administrative responsibilities directly under the State Council, including the bond market regulator(s).

Self-regulatory rules are set by SROs, such as the SAC, SSE, and SZSE. Industry provisions and business rules are issued by bond market infrastructure or market institutions, such as CSDC.

Business agreements are the service agreements signed by and between the bond market infrastructure institutions and their customers or account holders.

In practice, market laws and regulations are the general term used when referring to laws, administrative regulations, and department rules. Table 2.2 provides significant examples in each of the respective legislative tiers.

Table 2.2: Examples of Securities Market Legislation by Legislative Tier

Legislative Tier	Content or Significant Examples
Constitution of the People's Republic of China	Principles, Rights, and Obligations
Laws (key legislation)	• Securities Law of the People's Republic of China, 2014 • Company Law of the People's Republic of China, 2013
Administrative regulations	• Administrative Measures for the Disclosure of Information of Listed Companies (Amended 2010) • Regulation on Treasury Bonds of the People's Republic of China (Revised 2011) • Regulations on the Administration of Enterprise Bonds (Revised 2011) • Interim Regulation on Enterprise Information Disclosure, 2014 • Interim Guidelines for Bidding in Issuance of Enterprise Bonds, 2014 • Interim Guidelines for Book-Building in Issuance of Enterprise Bonds, 2014 • Measures for the Administration of Corporate Bond Offering and Trading, 2015 (公司债券发行与交易管理办法) • Measures for the Administration of Securities Registration and Clearing, Amended 2017
Departmental rules	• China Securities Depository and Clearing Co., Ltd. Implementing Rules for Registration and Settlement of Domestic Securities Investments of Qualified Foreign Institutional Investors, Revised 2002 • Administrative Measures for the Cross-Market Transfer of Government Bonds, 2003 • Regulation of the People's Republic of China on Foreign Exchange Administration, Revised 2008 • Announcement No. 1 of the China Securities Regulatory Commission–Guideline No. 1 for the Supervision of Unlisted Public Companies—Information Disclosure, 2013 • Announcement No. 52 of the China Securities Regulatory Commission—Standards for the Contents and Formats of Information Disclosure by Non-Listed Public Companies No. 3—Private Placement Memorandum and Issuance Report, 2013

	• Announcement of the China Securities Regulatory Commission No. 53—Standards Concerning the Contents and Formats of Information Disclosure by Non-Listed Public Companies No. 4—Application Documents for Private Placement, 2013 • Announcement No. 3 of the China Securities Regulatory Commission—Announcement on Issuing the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 24—Application Documents for the Offering of Corporate Bonds to the Public (Revised 2015) • Measures for the Suitability Management of Securities and Futures Investors, 2016
Self-regulatory rules, industry provisions, and business rules	• Trading Rules of the Shanghai Stock Exchange, 2006 • Shanghai Stock Exchange Business Guidelines for Asset Securitization (effective 26 November 2014) • Notice of the Securities Association of China on Issuing the Professional Code of Conduct for Corporate Bond Custodians (effective 5 June 2015) • Detailed Rules for the Registration, Depository and Settlement of Bonds of China Securities Depository and Clearing Co., Ltd. (中国证券登记结算有限责任公司债券登记、托管与结算业务细则) (effective 15 June 2015) • Trading Rules of the Shenzhen Stock Exchange (second revision effective 30 September 2016) • Notice of the Shanghai Stock Exchange on Issuing the Guidelines of the Shanghai Stock Exchange on the Business of the Issuance of Corporate Bonds in Manner of Book-Building (effective 30 September 2016) • Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange (effective 1 July 2017) (上海证券交易所债券市场投资者适当性管理办法) • Measures for the Suitability Management of Investors in the Bond Market of Shenzhen Stock Exchange (effective 1 July 2017) (深圳证券交易所债券市场投资者适当性管理办法) • Guidelines of the Shanghai Branch of the China Securities Depository and Clearing Co., Ltd. for the Registration and Clearing of Non-Publicly Placed Corporate Bonds (effective 3 July 2017) • Business Guidelines for the Registration and Settlement of Non-Publicly (Privately) Placed Corporate Bonds of China Securities Depository and Clearing Co., Ltd. Shanghai Branch (effective 3 July 2017) (中国结算上海分公司非公开发行公司债券登记结算业务指南) • Business Guide for Bond Registration and Settlement of China Securities Depository and Clearing Co., Ltd. Shanghai Branch (中国结算上海分公司债券登记结算业务指南) (effective 8 September 2017) • Notice on Amending the Shanghai Stock Exchange Corporate Bond Listing Rules (上海证券交易所公司债券上市规则) (effective 7 December 2018) • Notice on Amending the Shenzhen Stock Exchange Rules of Listing of Corporate Bonds (深圳证券交易所公司债券上市规则) (effective 7 December 2018) • Notice on Issuing the Shanghai Stock Exchange Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules (上海证券交易所非公开发行公司债券挂牌转让规则) (effective 7 December 2018) • Notice on Issuing the Shenzhen Stock Exchange Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules (深圳证券交易所非公开发行公司债券挂牌转让规则) (effective 7 December 2018)

Notes: Information in this table derives from www.lawinfochina.com, a site for English language resources on Chinese law created and maintained by Chinalawinfo Co., Ltd., a legal information and education company established by Peking University through its Center for Legal Information.
Source: ABMF SF1 compilation based on Chinalawinfo Co., Ltd.

D. Exchange Bond Market Regulatory Structure

Table 2.3: Supervisory Institutions and Instruments under Their Remit

Institution	Subjects
CSRC	Exchange bond market overall; NEEQ (new Third Board); Securities company short-term notes, corporate bonds, convertible bonds, detachable convertible bonds, enterprise asset-backed securities, Panda bonds (issued in the exchange bond market)
NDRC	Issuances of enterprise bonds and railway bonds
PBOC	Policy financial bonds
SAFE	Panda bonds, QFII and RQFII quotas

CSRC = China Securities Regulatory Commission, NDRC = National Development and Reform Commission, NEEQ = National Equities Exchange and Quotations, PBOC = People's Bank of China, QFII = Qualified Foreign Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor, SAFE = State Administration of Foreign Exchange.
Source: ABMF SF1 compilation based on China Depository & Clearing Co., Ltd. 2016. *China Bond Market Overview 2015*. Beijing.

Table 2.4: Bond Types, Issuer Categories, and Related Supervisory Institutions

Bond Type	Issuer Category	Institution
Corporate bonds	Corporates, SMEs	CSRC, exchanges
Enterprise bonds	Enterprises	NDRC, CSRC
Panda bonds	Foreign financial institutions, foreign nonfinancial enterprises	MOF, PBOC, CSRC, SAFE MOF, CSRC, SAFE, exchanges
Policy financial bonds[a]	Policy banks	PBOC
Securities company bonds, short-term notes	Securities companies	CSRC

CSRC = China Securities Regulatory Commission, MOF = Ministry of Finance, NDRC = National Development and Reform Commission, PBOC = People's Bank of China, SAFE = State Administration of Foreign Exchange, SME = small and medium-sized enterprise.
[a] Policy financial bonds may be subsumed in the overall category of financial bonds in statistical and other official publications. Financial bonds are defined as bonds issued by regulated financial institutions (policy banks, commercial banks, insurance institutions, and non-bank financial institutions). However, while policy financial bonds are issued both in the China Inter-Bank Bond Market and the exchange bond market, other financial bonds, such as those issued by commercial banks and insurance institutions, are only issued in the China Inter-Bank Bond Market.
Note: Table entries relate to the exchange bond market only. Bond types are presented in alphabetical order.
Source: ABMF SF1 compilation based on Association of Corporate Counsel. 2017. *Capital Markets Global Guide 2016/2017: Debt Capital Markets in China—Regulatory Overview*. Beijing.

The exchange bond market is overseen by CSRC in its role as the regulatory authority for the overall exchange bond market and the stock exchanges, and the SAC as the general exchange market SRO. Trading in the exchange bond market is conducted on both the SSE and SZSE, and the bond markets on both exchanges are under the unified guidance of CSRC. Furthermore, the SSE and SZSE have established similar fundamental rules in their respective markets. Using the unified principles established by CSRC resulted in similar descriptions concerning exchange listing and bond trading at both exchanges.

Table 2.3 gives an overview of the supervisory institutions with relevance for the exchange bond market, while Table 2.4 shows the relation between specific debt instrument types and their issuer categories to each supervisory institution.

1. China Securities Regulatory Commission (中国证券监督管理委员会)

CSRC was established in 1992 to administer the operation of the exchange market and to protect investors' rights and interests in the exchange market, including in the exchange bond market.

A ministerial-level public institution directly under the State Council, CSRC performs a unified regulatory function according to the relevant laws and regulations. With authority granted by the State Council over the securities and futures markets in the PRC, CSRC maintains an orderly securities and futures market, and ensures the legal operation of the capital market.

Pursuant to the relevant laws and regulations, CSRC performs the following duties in the supervision and administration of the securities market:

i. study and formulate policies and development plans for the securities and futures markets; draft relevant laws and regulations on the securities and futures markets, as well as put forward suggestions for formulation or modification of said laws and regulations; and work out the relevant rules, regulations, and measures for the securities and futures markets;
ii. exercise vertical administration over the domestic securities and futures regulatory institutions, conduct unified supervision over the securities and futures markets, and perform regulatory supervision over the management and managerial officials of the relevant securities companies;
iii. supervise the issuance, listing, trading, custody, and settlement of stocks, convertible bonds, bonds, and short-term notes of securities companies, and the bonds and other securities under the charge of CSRC as assigned by the State Council; supervise securities investment funds; approve the listing of corporate bonds; and supervise the trading of listed Treasury bonds and corporate bonds;
iv. supervise the market behavior of listed companies and their shareholders who shall fulfill the relevant obligations according to the relevant laws and regulations;
v. supervise the listing, trading, and settlement of domestic contract-based futures; and monitor the overseas futures businesses of domestic institutions in accordance with the relevant regulations;
vi. supervise the securities and futures exchanges, as well as their senior managerial personnel, in accordance with the relevant regulations; and supervise the securities and futures associations in the capacity of a competent authority;
vii. supervise the securities and futures business institutions, securities investment fund management companies, securities depository and clearing corporations, futures clearing institutions, securities and futures investment consulting institutions, and securities credit rating institutions; examine and approve the qualifications of fund custodian institutions and supervise their fund custody businesses; formulate and implement measures on the qualifications of senior management for the relevant institutions; and guide the Securities Association of China and the Futures Associations of China in the administration of the qualifications of personnel engaged in the securities and futures business;
viii. supervise the direct or indirect issuance and listing of shares overseas by domestic enterprises and the listing of convertible bonds by the companies

listed overseas, supervise the establishment of securities and futures institutions overseas by domestic securities and futures business institutions, and supervise the establishment of securities and futures institutions in the PRC by overseas institutions for securities and futures businesses;

ix. supervise the communication of securities and futures information, and take charge of the management of the statistical and information resources for the securities and futures markets;

x. work with relevant authorities in the examination and approval of the qualifications of accounting firms, asset evaluation institutions, and their personnel for securities and futures intermediary businesses; and supervise the law firms, lawyers, eligible accounting firms, asset appraisal institutions who issue the asset appraisal report (资产评估报告) stipulated for corporate bonds (公开发行公司债券) in Article 6 of the 2015 Measures for the Administration of Corporate Bond Offering and Trading (No. 113) (公司债券发行与交易管理办法), and their personnel in securities and futures business activities;

xi. investigate and penalize activities in violation of the relevant securities and futures laws and regulations;

xii. administer the foreign exchange and international cooperation affairs of the securities and futures sector in the capacity of a competent authority; and

xiii. perform other duties as assigned by the State Council.

For a list of the significant measures issued by CSRC and other rules and regulations with direct relevance for the exchange bond market, please refer to Appendix 3.

2. State Administration of Foreign Exchange (国家外汇管理局)

SAFE is an administrative agency tasked with drafting the rules and regulations governing foreign exchange market activities and managing the state foreign exchange reserves for the PBOC. The major functions of SAFE include the following:

i. study and propose policy suggestions on reform of the foreign exchange administration system, prevention of balance-of-payments risks, and promotion of balance-of-payments equilibrium; study and implement policy measures for the gradual advancement of the convertibility of the Chinese renminbi under the capital account and the cultivation and development of the foreign exchange market; provide suggestions and a foundation for the PBOC to formulate policy on the Chinese renminbi’s exchange rates;

ii. participate in the drafting of relevant laws, regulations, and departmental rules on foreign exchange administration, releasing standard documents related to carrying out of these responsibilities;

iii. oversee the statistics and monitoring of the balance of payments and external credit and debt, releasing relevant information according to regulations and undertaking related work concerning the monitoring of cross-border capital flows;

iv. supervise and manage the foreign exchange bond market of the state, undertake supervision and management of the settlement and sale of foreign exchange, cultivate and develop the foreign exchange market;

v. supervise and check the authenticity and legality of the receipt and payment of foreign exchange under the current account according to law; implement foreign exchange administration under the capital account according to law, and continuously improve management work in line with the convertibility process of the Chinese renminbi under the capital account; and regulate management of overseas and domestic foreign exchange accounts;

vi. supervise and check foreign exchange according to law and punish behaviors that violate the foreign exchange administration;

vii. undertake operation and management of foreign exchange reserves, gold reserves, and other foreign exchange assets of the state;
viii. arrange development planning, standards, and criteria for information technology-based foreign exchange administration, and organize the relevant implementation; supervise information-sharing with the relevant administrative departments according to law;
ix. take part in relevant international financial activities; and
x. undertake other matters as assigned by the State Council and the PBOC.

In relation to the exchange bond market, SAFE is responsible for allocating and supervising the QFII and RQFII quotas. Please also see section N in this chapter for a detailed description of the QFII and RQFII concepts and the role of SAFE under these concepts.

3. Shanghai Stock Exchange (上海证券交易所)

The SSE was founded on 26 November 1990 and commenced operation on 19 December of the same year. It is a nonprofit organization directly governed and supervised by CSRC. As an SRO, the SSE acts in an authority function related to the listing and trading of bonds. The SSE bases its development on the principles of legitimacy, regulation, self-discipline, and compliance in order to create a transparent, open, reliable, and efficient marketplace.

The SSE performs a variety of functions such as providing a marketplace and facilities for securities trading, formulating business rules, accepting and arranging listings, organizing and monitoring securities trading, regulating members and listed companies, and managing and disseminating market information. The functions and supervisory powers of the SSE also apply to debt securities listed and traded on its market. More detailed information on the SSE's role and self-regulatory functions can be found on the SSE website.[8]

The unified guidance approach of CSRC has resulted in similar or equivalent fundamental rules in the exchange bond markets of both the SSE and SZSE, including those for the listing and trading of debt securities.

In 2017, the SSE issued Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange (Revised 2017) (上海证券交易所债券市场投资者适当性管理办法), pursuant to the 2015 measures published by CSRC.[9] Please see Chapter III.N for a description of the professional investor concept that was introduced with these measures and the resulting impact on the issuance and supervision activities on the SSE.

See also section H in this chapter for more information on the SRO function of the SSE and its membership, and section K on the listing, disclosure, and trading rules of the exchanges.

4. Shenzhen Stock Exchange (深圳证券交易所)

The SZSE, established on 1 December 1990, is a self-regulated legal entity under the supervision of CSRC. It organizes and supervises securities listing and trading, and performs duties prescribed by laws, regulations, rules, and policies.

Its main functions include providing the venue and facilities for securities trading, formulating operational rules, receiving listing applications and arranging securities

[8] See http://english.sse.com.cn/.
[9] See http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20170628_4334574.shtml.

listing, organizing and supervising securities trading, supervising members, regulating listed companies, managing and disseminating market information, as well as other functions as approved by CSRC. The listing and trading authority functions of the SZSE also apply to debt securities listed and traded on its market.[10]

Under the unified guidance approach of CSRC, the exchange bond markets of both the SZSE and SSE have established similar and equivalent fundamental rules, including for the listing and trading processes of debt securities.

Since 2015, the private placement of corporate bonds (中小企业私募债) of small and medium-sized enterprises have been regularly issued in the SZSE market as part of the non-publicly placed (privately placed) corporate bonds sold in the exchange bond market.

In line with the 2015 measures, the SZSE revised its Rules for Listing of Corporate Bonds (No. 239, 2015) and other supporting rules, which further simplified listing procedures, improved operational efficiency, and optimized information disclosure for corporate bonds. Like the SSE, the SZSE issued a Circular on Seeking Public Comments on the Rules of the Shenzhen Stock Exchange on Listing of Corporate Bonds and Other Business Rules in May 2018 before revising the Listing Rules in December 2018 accordingly.

See also section H in this chapter for more information on the SRO function of the SZSE and its membership and section K for more on the listing, disclosure, and trading rules of the exchanges.

5. National Equities Exchange and Quotations (全国中小企业股份转让系统)

NEEQ was founded on 20 September 2012. It is a national securities exchange approved by the State Council. It is operated and managed by the National Equities Exchange and Quotations Co., Ltd. and supervised by CSRC.

In the Measures for the Administration of Corporate Bond Offering and Trading (No. 113, 2015), NEEQ was put forward as an additional listing and trading place for corporate bonds. However, as of May 2019, no corporate bond listing or trading activities had yet occurred on NEEQ.

6. Securities Association of China (中国证券业协会)

The SAC is an SRO in the securities industry founded on 28 August 1991 in accordance with the Securities Law and the Administrative Rules on the Registration of Associations. As a nonprofit incorporated association, the SAC operates under the industry guidance and supervision of CSRC and the Ministry of Civil Affairs.

The objectives of the SAC are to

i. assume the role of self-regulator of the securities industry under the centralized supervision and administration of the government;
ii. function as a bridge between the government and the securities industry;
iii. provide services to and safeguard the lawful rights and interests of its members;
iv. ensure orderly market competition;
v. promote an open, fair, and equitable securities market;
vi. protect the lawful rights and interests of investors; and
vii. facilitate the healthy and stable development of the securities market.

[10] See http://www.szse.cn/main/en/.

Please also see section H for more details on the SAC, its rules, and membership. Additional information on the SAC is also available from the association's website.[11]

E. Regulatory Framework for Debt Securities

The regulatory framework for debt securities in the PRC is very much dependent on the type of bond and the market in which it is intended to be listed and traded. For example, for the purpose of issuing bonds, different provisions apply to different types of bonds with respect to information disclosure and credit rating, among others. The investment in debt securities may be subject to specific approvals from regulatory authorities; please see Table 2.5 for an overview of the regulatory framework. The main regulatory authority for the exchange bond market is CSRC.

The listing of eligible debt securities requires the approval of either the SSE or SZSE, which also ensures that continuous disclosure obligations are met by the issuer. In fact, under the unified guidance of CSRC, the exchange bond markets have established similar fundamental rules, including for the listing and trading of debt securities.

Table 2.5: Overview of Regulatory Framework for Debt Securities in the Exchange Bond Market

Item	China Securities Regulatory Commission
Fundamental and key legislation	Securities Law of the People's Republic of China, 2014 Company Law
Key regulations (by regulator or SRO)	
CSRC	• Measures for the Administration of Corporate Bond Offering and Trading (No. 113, 2015; 公司债券发行与交易管理办法)
SSE	• Shanghai Stock Exchange Corporate Bond Listing Rules (Revised 2018) (上海证券交易所公司债券上市规则) • Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange (Revised 2017) (上海证券交易所债券市场投资者适当性管理办法) • Shanghai Stock Exchange Non-Public Placement of Corporate Bonds Listing and Tranding Rules, 2018 (上海证券交易所非公开发行公司债券挂牌转让规则)
SZSE	• Shenzhen Stock Exchange Corporate Bond Listing Rules (深圳证券交易所公司债券上市规则) (Revised 2018) • Measures for the Suitability Management of Investors in the Bond Market of Shenzhen Stock Exchange (Revised 2017) (深圳证券交易所债券市场投资者适当性管理办法) • Shenzhen Stock Exchange Non-Public Placement of Corporate Bonds Listing and Trading Rules 2018 (深圳证券交易所非公开发行公司债券挂牌转让规则)

[11] See http://www.sac.net.cn/en/.

SAC	• Administrative Measures for the Filing Management of Non-Publicly Placed Corporate Bonds, 2015 (非公开发行公司债券备案管理办法) • Non-Publicly (Privately) Placed Corporate Bonds Filing Notice, 2015 (非公开发行公司债券备案须知) • Corporate Bond Trustee's Guide to Dealing with Default Risks of Corporate Bonds, 2017 (公司债券受托管理人处置公司债券违约风险指引)
Regulations for cross-market transfer between exchange bond market and CIBM	• Measures for the Management of Cross-Market Transfer and Custody of Government Bonds, 2003 (国债跨市场转托管业务管理办法) • Operating Guidelines of China Securities Depository and Clearing Co., Ltd. for the Cross-Market Transfer of Custody of Treasury Bonds (Revised 2015) (中国证券登记结算有限责任公司国债跨市场转托管业务操作指引)
Self-regulatory organizations and their powers	• SAC as market participant SRO • SSE and SZSE as listing, trading, and approving authorities for public issuance of corporate bonds to Qualified Investors only, under the authority delegated by CSRC • Listing and issuance examination process by the exchange are carried out concurrently; once the issuance is approved, listing approval is given.
Investors for public offering	• Insurance companies, fund management companies, securities companies, trust and investment companies, affiliated finance companies of enterprises, retail investors, listed commercial banks, and commercial banks in the CIBM through cross-market transfer • QFII and RQFII
Features specific to public offering (公开发行)	• Public offerings of corporate bonds may be limited to Qualified Investors or Qualified Institutional Investors at an issuer's discretion.
Investors for non-public placement (非公开发行)	• Qualified Investors (合格投资者) or Professional Investors (专业投资者) only • Non-Public placement (非公开发行) is the official term in the exchange bond market for private placements.
Features specific to non-public placement (非公开发行)	• No approval from CSRC is required. • Underwriting securities companies are responsible for the selling and transfer restrictions relative to non-professional investors. • The prevailing number of investors who hold non-publicly placed bonds shall not exceed 200 through the life of the bond. This number cannot include general and retail investors.

CIBM = China Inter-Bank Bond Market, CNY = Chinese renminbi, CSRC = China Securities Regulatory Commission, QFII = Qualified Foreign Institutional Investor, RQFII =Renminbi Qualified Foreign Institutional Investor, SAC = Securities Association of China, SRO = self-regulatory organization, SSE = Shanghai Stock Exchange, SZSE = Shenzhen Stock Exchange.
Sources: CSRC, SAC, SSE, and SZSE.

Debt securities must be registered and deposited with CSDC for the respective instrument to be eligible for trading, transfer, settlement, and safekeeping in the exchange bond market.

F. Debt Securities Issuance Regulatory Processes

There is no universal approval procedure for the issuance of debt securities in the PRC. In principle, the issuer needs to determine the necessary issuance qualifications under prevailing laws and regulations. After approval by or filing with the relevant regulatory authorities, bonds can be issued in the exchange bond market and/or other bond market segments.

Public offerings of debt securities in the exchange bond market should meet the conditions prescribed in the Securities Law and the Company Law, as well as in administrative regulations and exchange rules, and require an application to CSRC and its approval, as well as an application to the listing and trading place (for verification or examination) and its approval.

Pursuant to Article 30 of the 2015 measures, the non-public placement (private placement) of securities shall be applied for issuance on one of the stock exchanges, the NEEQ, the quotation and trading system for products privately offered between securities companies, or the over-the-counter market.

If a bond is intended to be listed and traded on the exchange, a listing approval would have to be sought from the SSE or SZSE, regardless of the form of issuance. The listing eligibility review (where applicable) and listing application and approval process is further explained in Chapter III.I.

1. Regulatory Processes by Issuer Type

Table 2.6 provides an overview of these regulatory processes by corporate issuer type and identify which regulatory authority or market institution will be involved. In order to make the issuance process by issuer type more comparable across ASEAN+3 markets, the table features common issuer-type distinctions that are evident in regional markets.[12] Not all markets will distinguish all such issuer types or prescribe approvals. Sovereign issuers are typically exempt from corporate issuance approvals but may be subject to different regulatory processes.

All publicly offered issuances require an application to and approval from CSRC. Separate listing approval is required from the SSE, SZSE, or NEEQ if the debt securities are to be listed and traded on one or more exchanges. The submission of post-issuance reports to the SAC is required only if corporate bonds are issued via a non-public placement.

[12] ASEAN+3 refers to the 10 members of the Association of Southeast Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

Table 2.6: Authorities in the Regulatory Process for the Exchange Market by Issuer Type

Type of Issuer	**MOF (NDRC, SAFE, PBOC)** (pre-approval or registration)	**CSRC** (issuance approval)	**SAC** (post-issuance reporting for non-public placement)	**SSE or SZSE** (listing and trading)
Resident issuer				
Resident nonfinancial institution	X (NDRC)[a]	X[b]	X[c]	X[d]
Resident financial institution	For banks: N.A.[e]	For securities companies: N.A.[e]	X[c]	X[d]
Resident issuing FCY-denominated bonds	N.A.	N.A.	N.A.	N.A.
Nonresident issuer				
Nonresident nonfinancial institution	X (MOF)[f]	X[b]	X[c]	X[g]
Nonresident financial institution	X (MOF)[h]	X[b]	X[c]	X
Nonresident issuing FCY-denominated bonds	N.A.	N.A.	N.A.	N.A.

CSRC = China Securities Regulatory Commission, FCY= foreign currency, MOF = Ministry of Foreign Affairs, N.A. = not applicable, NDRC = National Development and Reform Commission, PBOC = People's Bank of China, SAC = Securities Association of China, SAFE = State Administration of Foreign Exchange, SSE = Shanghai Stock Exchange, SZSE = Shenzhen Stock Exchange.

[a] Approval required from NDRC for enterprise bonds.

[b] Corporate bonds issued via public offerings in the exchange bond market are subject to the approval of CSRC. Where a corporate bond is publicly offered to Qualified Investors, CSRC delegates the issuance approval procedure to the exchanges. Corporate bonds via non-public (private) placement are not subject to the approval of CSRC.

[c] Submission of post-issuance reporting for recording and filing purposes is required, only in the case when corporate bonds are issued via non-public (private) placement.

[d] Corporate bonds are issued via public offerings to Qualified Investors only and corporate bonds via non-public (private) placement require examination for issuance and review for listing by the exchange.

[e] At present, the financial institutions that issue corporate bonds in the exchange bond market are mainly securities companies, who issue without the prior approval of the CSRC. The China Banking and Insurance Regulatory Commission does not permit banks to issue corporate bonds in the exchange market.

[f] Approval is required from MOF for nonresident issuers.

[g] Corporate bonds issued by foreign nonfinancial corporate legal persons (Panda bonds) may also be listed on the SSE or SZSE.

[h] Approval is required from MOF; for other institutions, it may depend on the nature of the issuer and bond type.

Note: X indicates approval is required.

Source: ABMF SF1.

2. Regulatory Process Overview

The overview in Table 2.7 gives an indication of the regulatory processes applicable when using different issuing types in the exchange bond market in the PRC.

Table 2.7: Principal Steps in the Regulatory Process for Corporate Bond Issuance and Listing by Issuing Type

Principal Step	Public Offering to Public Investors	Public Offering to Qualified Investors only	Non-Public Placement to Qualified Investors
1. Application for Issuance and Listing of Corporate Bonds	Submit to CSRC Corporate Bond Supervision Department (No need to submit listing application to exchange at the same time)	Submit (债券上市预审核申请) to exchange (for examination for issuance and review for listing) as integrated process before issuance and listing	Submit (债券挂牌转让申请) to exchange No CSRC approval needed
2. Examination for Issuance of Bonds or Review for Listing of Bonds	Examination by CSRC (No need to review listing application by exchange at the same time)	Exchange will examine for issuance of bonds At the same time, exchange will conduct review for listing of bonds upon receipt of application, using a simplified approval procedure No need for issuer or underwriter to send application to CSRC	Exchange will examine for issuance This process does not need approval from CSRC; exchange is responsible for listing (挂牌转让) process A no-objection letter (无异议函) (official name: Notice on Acceptance of Issuance) is provided to the issuer
3. Feedback letter or approval letter and material submission for listing	If no feedback letter is issued by CSRC, or all feedback has been addressed to CSRC satisfaction, issuer will receive approval letter from CSRC, after which issuer may issue bonds After that, official listing materials are submitted to exchange	If no feedback letter is issued by exchange, or all feedback has been addressed to the satisfaction of the exchange, exchange will send approval report to CSRC within 6–25 working days from receipt of application and CSRC will issue approval letter within 10 working days Exchange will publish notice on its website for public information After that, official listing materials are submitted to exchange	If no feedback letter is issued within 5 working days, or if all feedback has been addressed to the satisfaction of the exchange, exchange will issue a Notice on Acceptance of Issuance to the issuer within 10–25 working days Exchange will publish notice on its website for public information After that, official listing materials are submitted to exchange

CSRC = China Securities Regulatory Commission.
Sources: Shanghai Stock Exchange and Shenzhen Stock Exchange.

The issuance applications are not received directly by CSRC other than for publicly offered bonds to public (all) investors. Applications for publicly offered bonds to Qualified Investors only and non-publicly (privately) placed bonds are received and processed by the exchanges, and issuers are free to select the exchange of their choice.

Individual regulatory processes for issuing debt securities in the exchange bond market, as may be applicable, are explained in the next few sections.

3. Regulatory Process for Public Offerings

The issuance of debt securities via a public offering is subject to approval from CSRC. Proceeds from publicly offered corporate bonds to public investors may be used for objectives previously approved by CSRC. The issuer will also have to appoint a bond trustee.

If the issuer is not a financial enterprise, proceeds from the new issuance should not be onward lent to other parties.[13] The issuer must designate a special account for the receipt, transfer, and payment of proceeds, principal, and coupons.

The necessary actions to be taken by the issuer and the approving authorities are explained in the following steps.

Step 1—Application to the China Securities Regulatory Commission

For the issuance of publicly offered corporate bonds to public investors, the issuer and/or its underwriter(s), or scheme manager(s) in the case of the proposed issuance of asset-backed securities (ABS), will need to submit an application for issuance approval to the CSRC Corporate Bond Supervision Department. In contrast to the other offer types (see sections 4 and 6 in this chapter), the issuer or its agent need not obtain a prior confirmation of listing eligibility for the proposed bond issue from an exchange, as CSRC will determine listing eligibility as part of its examination.

The format and manner of delivery of the application documents to be submitted by an issuer who applies for a public offering of debt securities shall be prescribed by the authority or department legally responsible for verification or examination and approval: in this case, CSRC.

In applying to CSRC for issuing bonds to the public, a company must submit the following documents, pursuant to Article 17 of the Securities Law:

i. certificate of registration of the company;
ii. articles of association of the company;
iii. corporate bond offer procedures; and
iv. other documents (including the prospectus) specified by the department (institutions) authorized by the State Council or CSRC.

According to Article 6 of the 2015 measures, the audit report, asset appraisal report, and credit rating report, as quoted in the bond prospectus and other information disclosure documents, shall be issued by institutions qualified to engage in securities services business.[14] The written legal opinion quoted in the bond prospectus shall be issued by a law firm and signed by two practicing lawyers and the person in charge of the law firm where they work.

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[13] According to Article 15 of the 2015 measures (公司债券发行与交易管理办法), except for financial enterprises, the raised funds may not be transferred to other parties.

[14] According to Announcement No. 3 of the China Securities Regulatory Commission— Announcement on Issuing the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 24—Application Documents for the Offering of Corporate Bonds to the Public (Revised 2015) (effective 3 February 2015) (中国证券监督管理委员会公告 (2015) 3 号—关于公布《公开发行证券的公司信息披露内容与格式准则第 24 号—公开发行公司债券申请文件 (2015 年修订)》的公告), for publicly offering bonds, the issuer needs to submit an asset appraisal report as part of the application documents only if the issuer experienced material assets reorganization in the past 3 years; otherwise, the issuer does not need to submit asset appraisals.

Step 2—Review and Approval from the China Securities Regulatory Commission

CSRC shall examine and approve the application for the issuance of corporate bonds. CSRC shall make a decision on the application documents for the issuing of debt securities within 3 months from the date of acceptance of the same. In practice, the review process and approval may be faster, depending on the quality of the application documents. CSRC has the right to ask the issuer for clarification or the provision of additional information at its discretion (反馈意见). If so necessary, CSRC will issue a feedback letter to which the issuer must respond accordingly within a stipulated timeframe.

If CSRC refuses to verify the application documents or to grant approval to the same upon examination, it shall provide its reasons, as stated in Article 21 of the 2015 measures.

In the case of approval, CSRC will issue an approval letter to the issuer, who may commence the issuance process thereafter, including the application for listing on an exchange.

Step 3—Actual Issuance

Bonds are basically issued and kept in dematerialized form. In issuing bonds in physical form, the bonds shall bear the name, face value, interest rate, and time of repayment, the signature of the chairman of the board of directors and seal of the company.

Under Article 18 of the 2015 measures, a corporate bond whose credit standing reaches the following criteria may be publicly offered to general investors or, at the issuer's discretion, publicly offered to Qualified Investors only if

i. the issuer has not breached the contract or delayed the payment of principal and interest on any debt in the last 3 years;
ii. the issuer's average annual distributable profits in the last 3 fiscal years are not less than 1.5 times the annual interest on the bond;
iii. the credit rating of the bond equals AAA; and
iv. other conditions are met as set out by CSRC for the purpose of protecting investors.

A public offering of corporate bonds that fails to reach the aforementioned criteria shall be issued to Qualified Investors only, pursuant to Article 18 of the 2015 measures (see also section 4 below).

Once an application for the issuance of debt securities has been verified or approved upon examination, the issuer shall publish the public offering documents prior to the public offering of the securities, as prescribed in the relevant laws and administrative regulations, and make said documents available at designated places for the public to inspect.

Before information about the issuing of securities is announced according to the law, no person with knowledge of plans to issue such debt securities may make public or divulge such information. No issuer may issue securities before publishing the public offering documents.

If an event occurs that makes the issuer no longer able to meet the criteria after the approval but before the actual launch of the public offering, the issuer should suspend the issuance and send a report to CSRC on the suspension in a timely manner. On such occasions, underwriters should stop underwriting and insist on the issuer submitting an incident report to CSRC as soon as possible.

For publicly offered bonds to public investors, an issuance shall be completed within 6 months from the date of approval for a one-time issuance. If the issuer wishes to issue in multiple tranches, the first issuance shall be completed within 12 months, and all issuances shall be completed within 24 months from the date of approval.

Step 4—Listing Process

Bonds may be listed for trading on the SSE, SZSE, or NEEQ. A listing requires the examination by and approval from the exchange or trading place and is subject to the prescriptions from CSRC and the listing rules of the exchange or trading place. Both issuer and debt securities to be listed must fulfill specific eligibility criteria in order to be able to list.

For a comprehensive description of the listing process and the underlying eligibility criteria, please refer to Chapter III.I.

4. Simplified Approval for Issuance of Publicly Offered Corporate Bonds to Qualified Investors

The CSRC has simplified the regulatory process (issuance approval procedure) for a corporate bond that is publicly offered to Qualified Investors only. As a result, in the case of a public offering to Qualified Investors only, the issuer may submit the issuance application and supporting documents to the exchange, not to CSRC. The review of the issuance and listing eligibility of issuer and bonds, delegated by CSRC to the exchanges, represents the key regulatory process for public offers to Qualified Investors only and, hence, is mentioned here.

The timeframe for the issuance review process by the exchange depends on the issuer's credit rating, the completeness and quality of the application documents, and whether the exchange does have feedback and requires further input from the issuer or underwriter.

Upon successful review by the exchange, the exchange will submit an approval report to CSRC, upon which CSRC will issue a formal approval letter to the issuer, which is typically passed in physical form or as a scanned document to the underwriter. The exchange will publish the notice of approval for the issuance on its website to make it available to the public. CSRC commits to giving the issuer a formal approval within a short time (typically less than 10 working days) upon the receipt of the report from the exchange. The issuer may then commence the listing and issuance process (see Chapter III.I for details). The timeframe to market for the issuance review, approval, and listing process typically takes about 4–6 weeks for a AAA issuer, again depending on the need for clarifications during the review process.

In the case of publicly offered bonds to Qualified Investors only, an issuance shall be completed within 6 months from the date of approval for a one-time issuance. If the issuer wishes to issue multiple tranches, the first issuance shall be completed within 12 months, and all issuances shall be completed within 24 months from the date of approval.

In relation to offerings of corporate bonds to Qualified Investors, as well as for non-public placements (see also section 6), there is no clear-cut concept of an exemption from full disclosure requirements or a process to allow simplified or concise disclosure in the issuance documentation. However, according to Article 43 of the 2015 measures, when a corporate bond is publicly offered to Qualified Investors only, the timeline and the contents of disclosure items between publicly offered corporate bonds and non-publicly placed corporate bonds may be different.

5. Regulatory Process for Issuances by a Nonresident Issuer

At present, issuing Panda bonds is the only way for nonresident issuers to access the CNY-denominated domestic bond market. For Panda bonds issued in the exchange bond market, CSRC would be the primary regulator and approval of Panda bond issuances in the exchange bond market would follow the approval process for the respective issuance type for domestic corporate bonds.

While the issuance of Panda bonds in the exchange bond market was still based on a pilot program in line with provisions in the 2015 measures for corporate bonds at the time of compilation of this bond market guide, CSRC had already been in consultations with other policy bodies and regulatory authorities about formally establishing a Panda bond issuance regime for the exchange bond market.

As of May 2019, the proposed Interim Measures for Panda Bond Issuance in the Exchange Bond Market was in process, bringing Panda bond issuance in the exchange bond market in line with treatment in the CIBM.

The MOF, PBOC, and SAFE may be the relevant regulatory authorities regarding subjects such as accounting and auditing regulations, CNY-denominated cross-border payments, and foreign exchange receipts and payments.

For more information on Panda bonds, their underlying regulations, and the proposed formalization of their issuance in the exchange bond market, please refer to Chapter I.B.3 (development) and Chapter III.B.7 (description).

6. Regulatory Process for Non-Public (Private) Placement

Non-publicly (privately) placed corporate bonds do not require approval from CSRC. However, CSRC continues to oversee and regulate issuances via non-public offerings, their trading, and transfers according to the law. Non-public placement, non-public offering, or non-public issuance (非公开发行) are the terms used in regulations and rules for a private placement.

Non-publicly (privately) placed corporate bonds can only be issued to Qualified Investors. The solicitation of non-publicly placed corporate bonds may be done for up to 200 Qualified Investors. As a consequence, public advertisements, open publications, seminars, sales campaigns, and road shows may not be used.

Information on corporate bonds issued via a non-public (private) placement needs to be filed with the SAC upon issuance. A credit rating for a non-publicly placed bond is not mandatory but is often used to satisfy a particular investor universe. Therefore, the issuer has no obligation to disclose its own credit rating in the information memorandum (募集说明书).[15] But in many cases, the issuer will disclose the rating in the bond prospectus or information memorandum. Proceeds from a non-public placement may be used for objectives agreed by the parties to the issuance in the issuance documentation.

Bonds issued via a non-public placement may be listed on either one of the stock exchanges, the NEEQ, or the quotation and trading system for products privately offered between securities companies. They can also be traded over-the-counter.

[15] According to Article 28 of the CSRC 2015 measures (公司债券发行与交易管理办法), "whether the credit rating of non-publicly placed corporate bonds is attached or not will be determined by the issuer and should be disclosed in the bond prospectus (information memorandum)."

The action of listing (挂牌转让) a non-publicly placed corporate bond on the exchange is distinguished from the typical listing (上市) process of publicly offered corporate bonds by the use of a different term and different characters in Chinese. Yet, the English interpretation is the same in both cases, being a “listing” of the bonds on exchange.

The actual regulatory process for non-publicly (privately) placed bonds consists of the issuance review process, which determines the issuance and listing eligibility of the issuer and the bonds to be issued, and the listing application and actual listing process once the bonds have been issued. The determination of the issuance and listing eligibility represents the key regulatory process for non-public offers and, hence, is described in this section. For details of the listing application and actual listing process, please see Chapter III.I.

Step 1—Application for Issuance Review to the Exchange

The issuer must submit the required documentation to apply for the issuance review of the non-publicly offered debt securities to the respective exchange. The specific requirements for disclosure documentation and supporting documents are contained in the Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules of the exchanges, and typically include

i. an application for the bond listing and transfer (挂牌转让);
ii. a resolution of the competent decision-making department (board of directors, shareholders' meeting, or general meeting of shareholders) applying for the listing of bonds;
iii. a copy of the company's articles of association and business license;
iv. an announcement of the listing and trading of bonds;
v. issuance documents such as bond information memorandum (债券募集说明书), financial and audit reports, bondholder meeting rules, corporate bond trustee management agreement, credit enhancement measures documents (if any), ratings report (if any), and announcement of publication results;
vi. documentary evidence of the actual fund-raising of the bonds;
vii. a description of the underwriting institution (if any) as to whether the bond meets the listing conditions;
viii. legal opinions related to bond issuance and conditions eligible for listing;
ix. certification from all directors, supervisors, and senior management of the issuer, or those who perform the same duties, that the contents are true, accurate, and complete, and the electronic documents and faxes submitted are consistent with the originals; and
x. other materials required by the exchange.

If the issuer is a listed company, some documents, such as a copy of the company's articles of association and its business license, need not be submitted again.

The contents of the disclosure information are typically determined between issuer, intermediaries, and Qualified Investors. The provision of a credit rating report is likely, though not mandatory, since investors tend to request for a credit rating to be in place.

Step 2—Review and Approval by the Exchange

The exchange will examine the issuance documentation and issue a feedback letter, typically within 5 working days, if it deems the application incomplete, requires clarification on information given, or requests any additional information. Once the review is complete, the outcome will be brought to the Review Committee of the exchange, which will formalize the decision.

If the exchange confirms the eligibility of the issuer and the proposed debt securities, and it finds that the documentation is in order, it will deliver a no-objection letter (无异议函), which is formally known as a Notice on Acceptance of Issuance, to the issuer, typically within 5 working days of the submission of the internal review result to the Review Committee.

After the Notice on Acceptance of Issuance is delivered, the exchange will also publish a corresponding notice on its website to make it available to the public.

The issuance review process can take 10–25 working days, depending on the credit rating of the issuer, whether the issuer is already listed, and whether the application documents are complete or clarifications are required. The application by a AAA-rated issuer can take 2–3 weeks from submission to approval.

Step 3 onward—Listing Application, Issuance, and Actual Listing

The issuer may issue and list the non-publicly (privately) placed debt securities on the exchange after receiving the Notice on Acceptance of Issuance and upon obtaining the registration approval from CSDC (see also Chapter III.H for details of the registration process). The listing process is described in detail in Chapter III.I.

For non-publicly placed bonds, the issuance and listing shall be completed within 12 months from the Notice of Acceptance of Issuance.

The underwriter will have to submit a post-issuance report to the SAC upon the conclusion of the issuance, typically after the listing. A post-issuance report to CSRC is not required.

7. Obligations after Approval and after Issuance

In the exchange bond market, a number of obligations are to be met by the issuer and/or the underwriter(s) after the approval from CSRC and/or from the exchange or trading place, and after the actual issuance of the bonds.

a. Public Offerings

After the bond issuance application has been approved by CSRC, a company must make public the following information on the bond offering:

i. name of the company;
ii. total amount and face value of the bonds;
iii. interest rate;
iv. period and method for payment of principal and interest;
v. starting and closing date of the issue;
vi. net assets of the company;
vii. total amount of corporate bonds having been issued but not yet due; and
viii. the underwriters of the bonds.

b. Submission of Summary Underwriting Reports to CSRC

Securities companies that underwrite publicly offered corporate bonds as the lead underwriter must report a summary of the underwriting exercise, including the book-building process, as a matter of record to CSRC within 10 working days after the expiration of the offering period.[16]

Also, according to Article 39 of the 2015 measures, the issuer and the lead underwriter shall engage a law firm to witness the issuance process, placement, qualifications of the investors participating in the subscription, and allocation of funds, among other subjects, and issue a professional legal opinion. The lead underwriter shall report the professional legal opinions within 10 working days after the publicly offered corporate bonds are listed to CSRC, together with the summary underwriting report and other documents, as may be required.

c. Non-Public (Private) Placement

The (lead) underwriter of non-publicly placed corporate bonds must file the outcome of the issuance with the SAC within 5 working days after completion of the issuance. A report to CSRC is not required.

8. Issuance Process Specific to a Domestic Financial Institution

In principle, all financial institutions could choose to issue debt securities in the exchange bond market under exchange regulations. However, CBIRC presently does not permit commercial banks (except listed commercial banks) to issue debt securities in the exchange bond market. Even if listed commercial banks want to issue bonds in the exchange bond market, they will still need to get approval from CBIRC, plus the exchange will review that approval. Hence, in practice, listed commercial banks rarely issue financial bonds in the exchange bond market. As such, a specific process for the issuance, listing, and trading of financial bonds in the exchange bond market does not exist.

At the same time, non-bank financial institutions that issue corporate bonds in the exchange bond market are mainly securities companies issuing company bonds and short-term notes. Since securities companies and their market activities, including debt securities issuance, are subject to the supervision of CSRC, it is more natural for these issuers to choose to issue bonds in the exchange bond market. The process for approval of said debt securities is the same as the one for corporate bonds, depending on the issuance type.

9. Regulatory Process for Foreign-Currency-Denominated Debt Instruments

It may be principally possible to issue USD-denominated bonds in the exchange bond market in the PRC, other than in Hong Kong, China. However, such an issuance option is still being considered by policy bodies and regulatory authorities and has not yet been announced.

10. Regulatory Process for Overseas Issuance of Corporate Bonds

Enterprises in the PRC that intend to directly or indirectly issue debt securities abroad or to list their securities for trading abroad are subject to approval from NDRC, such as in the case of issuance in Hong Kong, China. After the issuance, foreign debt registration with SAFE and the submission of a post-issuance filing to NDRC are required.

Pursuant to the NDRC Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations, the issuer

[16] As specified in the Guidelines for the Operation of Shanghai Stock Exchange Corporate Bond Issuance and Listing Business, 2016 (上海证券交易所公司债券发行上市业务操作指南).

must register the bond issuance with NDRC and obtain a certificate from NDRC evidencing such registration.

The issuer undertakes to (i) provide the requisite information on the issuance of the bonds to NDRC within 10 registration business days after the issue date, and (ii) comply with all applicable laws and regulations in connection with the NDRC post-issuance filing.

Any failure to complete the relevant filings under the NDRC circular within the prescribed timeframe following the completion of the issuance of the bonds may have adverse consequences for the issuer of and/or the investors in the bonds.

The obligations of an issuer intending to issue debt securities outside of the PRC are contained in a number of regulations:

i. within 15 registration business days after the issue date, the issuer will register the bond, or file or cause the bond to be registered or filed, with SAFE pursuant to the Administrative Measures for Foreign Debt Registration and its operating guidelines;
ii. the issuer will use its best endeavors to complete the foreign debt registration and obtain a registration record from SAFE on or before 100 registration business days after the relevant issuance date;
iii. if applicable, as soon as possible upon being required or requested to do so by any relevant governmental authority, the issuer will file the bond or cause for the bond to be filed with SAFE pursuant to the Circular of the PBOC on Implementing Overall Macro Prudential Management System for Nationwide Cross-Border Financing, and comply with all applicable laws and regulations in relation to the foreign debt registration.

G. Continuous Disclosure Requirements in the Exchange Bond Market

Continuous disclosure in the exchange bond market is subject to the provisions of the 2015 measures and the listing rules of the exchanges, depending on the type of debt securities listed.

Under the 2015 measures, the issuer of publicly offered corporate bonds must disclose interim reports and annual reports audited by an accounting firm that is qualified to engage in securities services during the life of the bonds.

The issuers of non-publicly placed corporate bonds must disclose information according to the timing and content stipulated in the bond information memorandum, and the relevant information disclosure documents must be submitted by the bond trustee to the SAC for filing.

Specifically, according to the Notice on Further Doing a Good Job in the Information Disclosure of Non-Public Placement of Corporate Bonds (关于进一步做好非公开发行公司债券信息披露相关工作的通知) issued by the SSE and SZSE in 2016, issuers of non-publicly placed bonds should also be clearly identified in the bond information memorandum. It was agreed to also disclose annual reports and interim reports, as applicable. This practice became effective on 15 October 2016.

Table 2.8 displays the key disclosure items prescribed in either Article 43 of the 2015 measures or in the abovementioned notice issued in 2016.

Table 2.8: Key Continuous Disclosure Information Components

Issuance Type	Key Disclosure Document	Interim Report	Annual Report Audited
Publicly offered corporate bonds	Bond prospectus	X	X
Non-publicly placed corporate bonds	Bond information memorandum[a]	X	X

Notes: X indicates that the document is required.
[a] This document is also variously known as a private placement memorandum or a bond prospectus; the Chinese term (Chinese characters) for the key disclosure document are the same, regardless of context.
Source: Shenzhen Stock Exchange.

1. Corporate Bonds Issued via a Public Offering

The issuer must disclose updates to the bond prospectus, interim reports (not subject to audit), and audited annual reports through the life of the bond. Under Article 44 of the 2015 measures, issuers must disclose information on the use of proceeds from publicly offered corporate bonds in their regular reports on a periodical basis.

According to Article 45 of the 2015 measures, the issuer shall make timely disclosure of major events that may affect the issuer's financials, business performance, or bond price during the life of the bond. Major events are stipulated as follows:

i. significant changes in the issuer's business policy, business scope, or external conditions of production and operation;
ii. changes in bond credit ratings;
iii. the main assets of the issuer being sealed, seized, or frozen;
iv. the issuer's default in the event of failure to pay off debts;
v. the issuer's accumulated new loans or external guarantees in the current year exceed 20% of the net assets at the end of the previous year;
vi. the issuer waives creditor's rights or property, exceeding 10% of the net assets at the end of the previous year;
vii. the issuer has incurred a significant loss of more than 10% of the net assets at the end of the previous year;
viii. the issuer decides to reduce capital, merge, separate, dissolve, or file for bankruptcy;
ix. the issuer is involved in major lawsuits, arbitrations, or major administrative penalties;
x. significant changes in the guarantor, collateral, or other debt repayment guarantee measures;
xi. significant changes in the issuer's situation results in noncompliance with the listing conditions of corporate bonds;
xii. the issuer is suspected of committing a crime and investigated by the judicial organ; the issuer's directors, supervisors, and senior management personnel are suspected of committing crimes and subject to compulsory measures by the judicial authorities; and
xiii. other matters that have a significant impact on investors' investment decisions.

The issuer has to make disclosure information available to the public; this includes the obligation to file disclosure information with the stock exchange(s) on which the bond is listed (if so applicable), through their dedicated disclosure websites, and to publish the disclosure information in at least one newspaper designated by CSRC for public inspection, pursuant to Article 47 of the 2015 measures.

2. Listed Corporate Bonds

In the case of listed and publicly offered corporate bonds that are traded either on an exchange or another trading place, the issuer shall disclose annual audited financial statements and semiannual financial statements in the media (e.g., newspaper, Internet), as specified by CSRC or in the rules of the exchange or trading place.

The prescribed contents and the format of the semiannual and annual reports to be submitted by a listed company can be found on the CSRC website. The format and requirements were most recently updated in May 2018 when CSRC published its Notice on Content and Format of Corporate Information Disclosure for Publicly Issued Securities—Announcement No. 3 on the Content and Format of the Semi-Annual Report (Revised 2017) (公开发行证券的公司信息披露内容与格式准则第 3 号—半年度报告的内容与格式).[17] Unfortunately, at the time of compilation of this bond market guide, an English version had not yet been made available on the CSRC website.

3. Enterprise Bonds

In the case of enterprise bonds, in addition to the regular disclosure requirements for corporate bonds (see also section 1), any of the following events that occur must also be disclosed in a timely manner under the Notice of the General Office of the National Development and Reform Commission on Further Strengthening the Regulation Work for the Duration of Enterprise Bonds:

i. the business policies and business scope of the issuer changes significantly, or the external conditions of production and operation change significantly;
ii. debt cannot be repaid when falling due;
iii. net asset loss exceeds 10%;
iv. a decision on the reduction of capital, merger, division, dissolution, or filing for bankruptcy;
v. major litigation or arbitration matters commenced;
vi. a major administrative penalty is imposed; and
vii. an application for the issuance of new bonds is filed.

4. Corporate Bonds Issued via a Public Offering to Qualified Investors Only

As mentioned earlier, the continuous disclosure requirements for corporate bonds that are offered only to Qualified Investors via a public offering are the same as those for public offers to general (all) investors.

5. Corporate Bonds Issued via a Non-Public Placement

The timing and contents of disclosure are agreed between the parties to the issuance and must be described in the bond prospectus or bond offering memorandum, and the issuer has to commit to fulfill these disclosure obligations. The issuer should commit to disclose the use of proceeds that will be stipulated in the disclosure document. The bond prospectus or bond offering memorandum and relevant documents are filed with the SAC by the bond trustee.

Based on changes in market practice (see also earlier in this section), effective 15 October 2016, the exchanges stipulated that issuers of non-public offerings also disclose annual reports and interim reports through the lifecycle of the bond.

[17] See http://www.csrc.gov.cn/pub/newsite/flb/flfg/bmgf/xxpl/xxplnr/201805/t20180520_338391.html.

H. Self-Regulatory Organizations in the Exchange Bond Market

An SRO is an organization that exercises some degree of regulatory authority over an industry or profession. In the PRC, an SRO is the organization authorized by the State Council to exercise control over a certain aspect of the industry and support market growth in the financial, securities, foreign exchange, and capital markets.

In addition to other relevant regulations, under Articles 14 and 42 of the 2015 measures, the responsibilities of an SRO for the securities market prescribe that

i. securities SROs may carry out self-regulation of the listing for trading and transfer, non-public issue and transfer, underwriting, due diligence, credit rating, custody, and credit enhancement of corporate bonds in accordance with relevant provisions; and
ii. securities SROs shall develop relevant business rules, provide specific provisions governing the underwriting, recording and filing, listing for trading and transfer, information disclosure, investor suitability management, bondholders' meeting, and custody of corporate bonds, and submit them to CSRC for approval.

The issuer, other information disclosure obligors, and related parties for the proper management of investors and investor qualifications shall perform the information disclosure obligations in accordance with the relevant provisions of CSRC regulations and the respective SROs in the securities market, including the bond market.

In addition, both the SSE and SZSE have been authorized by CSRC, as SROs for the exchange bond market, to approve public offerings of corporate bonds to Qualified Investors only; CSRC will issue a final approval on the basis of the examination carried out by the exchanges. Please see section F in this chapter for a complete description of the regulatory processes for the different offering methods in the exchange bond market.

1. Securities Association of China (中国证券业协会)

SAC is an SRO for the securities industry founded in accordance with Chapter 9 of the Securities Law and the Regulation on the Administration of the Registration of Social Organizations. SAC provides self-regulatory management in the exchange bond market according to the prescriptions of the relevant articles in the 2015 measures.

As a nonprofit association, SAC operates under the guidance and supervision of CSRC and the Ministry of Civil Affairs. SAC was established on 28 August 1991 and is committed to the principles of self-regulation, service, and communication since then.

a. Securities Association of China Membership and Observers

Following SAC's Sixth General Meeting of Members, member categories were adjusted and the number of members changed. As of November 2018, the SAC had 440 members and 779 observers.

SAC constituents include statutory members (securities companies), general members (securities investment consulting companies and CRAs), and special members (regional securities industry associations). Observers include fund management companies, futures companies, and trust companies (Table 2.9).

Table 2.9: Securities Association of China—Member Categories and Number of Institutions

Category	Members	Number of Institutions[a]
Statutory members	Securities companies	131
General members	Securities investment consulting companies, credit rating agencies	230
Special members	Regional securities industry associations	79
	Total Members	**440**
Observers	Fund management companies, futures companies, trust companies	779

[a] Number of institutions as of end-November 2018.
Source: Securities Association of China. Members. http://www.sac.net.cn/en/SAC_Members/1/.

b. Securities Association of China Rule-Making Function

As an SRO for the securities market, the SAC issues notices and guidelines on market-specific practices and activities. Notable regulations published by the SAC include the following:

- Administrative Measures for the Filing Management of Non-Publicly Placed Corporate Bonds, 2015 (非公开发行公司债券备案管理办法)
- Non-Publicly Placed Corporate Bonds Filing Notice, 2015 (非公开发行公司债券备案须知);
- Notice on Guidelines for Asset Securitization Business on the Inter-Agency Quotation and Service System for Private Placement Products (for Trial Implementation), 2015 (中国证券业协会关于发布《机构间私募产品报价与服务系统资产证券化业务指引(试行)》的通知)
- Notice on Issuing the Professional Code of Conduct for Corporate Bond Trustees, 2015 (中国证券业协会关于发布《公司债券受托管理人执业行为准则》的通知)
- Notice on Issuing the Self-Regulatory Rules for Underwriting Corporate Bonds (Annex: Norms of Corporate Bond Underwriting Practice, Guidelines for Corporate Bond Underwriting Practice Due Diligence Investigation), 2015 (中国证券业协会关于发布公司债券承销业务自律规则的通知(附：公司债券承销业务规范、公司债券承销业务尽职调查指引))
- Corporate Bond Trustee's Guide to Dealing with Default Risks of Corporate Bonds, 2017 (公司债券受托管理人处置公司债券违约风险指引)
- Notice on Issuing the Revised Guidelines for the Negative List on the Projects Undertaking of Non-Publicly Placed Corporate Bonds, 2018 (中国证券业协会关于发布修订后的《非公开发行公司债券项目承接负面清单指引》的通知)

The relevant regulations are available for download from the SAC website.[18] For a comprehensive list of relevant regulations for the exchange bond market, including full titles and effective dates, please refer to Appendix 3.

[18] See http://www.sac.net.cn/flgz/zlgz/201805/t20180518_135373.html.

c. Securities Association of China Role in Regulatory Processes

If corporate bonds are non-publicly placed (i.e., issued via a private placement), the issuer or underwriter will need to submit post-issuance reporting to SAC, pursuant to Article 29 of the 2015 measures and in accordance with the Non-Publicly Placed Corporate Bonds Filing Notice, 2015.

Regarding the Guidelines on Negative List for Non-Publicly Placed Corporate Bond Issuances, the SAC is responsible for organizing research to identify and publish negative lists on the association's website.[19]

2. Shanghai Stock Exchange (上海证券交易所)

The SSE acts as the SRO for trading activities on its market and governs its constituents, including securities firms and listed companies. The SSE is under direct supervision of CSRC and derives its status as an SRO from Article 102 of the Securities Law and Article 42 of the 2015 measures.

As an SRO, the SSE performs a variety of functions over listed companies, exchange members, and the exchange bond market at large—such as providing an organized marketplace and facilities for securities trading, formulating business rules, accepting and arranging listings, organizing and monitoring securities trading, regulating members and listed companies, and managing and publicizing market information. Detailed information on the SSE's roles and functions is also available on its website.[20]

For details on listing, disclosure, and the Trading Rules of the SSE and their underlying regulations, please refer to section K in this chapter.

a. Exchange Members and Participants

The SSE distinguishes between members and participants. At the end of 2017, the SSE had 115 securities companies as members. There were 10,880 member sales offices, which was 1,493 more than in 2016. Members and nonmembers held a total of 5,363 seats on the SSE. A total of 18,670 trading units were opened in 2018, compared with 2,222 new trading units in 2016.

Participants, also referred to as nonmember institutions, are entities participating in the business of the SSE, including fund management companies, insurance companies, insurance asset management companies, and listed commercial banks. By the end of 2017, the SSE had 251 participants, among them 113 fund management companies, 43 insurance companies, 18 insurance asset management companies, 16 listed commercial banks, 4 banking asset management companies, 14 banks conducting stock pledge business, 1 social security fund (National Council for Social Security Fund), 26 futures companies, 14 finance companies, and 2 trust and investment companies.

Information on membership rules of the exchanges may be found in section K in this chapter.

[19] See http://www.sac.net.cn/flgz/zlgz/201805/t20180518_135373.html.
[20] See http://english.sse.com.cn/aboutsse/sseoverview/brief/.

b. Dealers and Primary Dealers

Both a member securities company and a participant institution may apply for the roles of primary dealer or dealer. For the function of dealers and primary dealers in the context of debt securities issuance, please also see Market Participants in Chapter III.

i. Dealers

An institution may apply to the SSE for dealer status if it meets the following criteria:

i. it can participate in transactions of debt securities in accordance with the law;
ii. with respect to an applicant that is a securities company, it must be qualified as a proprietary securities business and its net capital must not be less than CNY200 million;
iii. it has a department responsible for debt securities with qualified professionals;
iv. it has safe and reliable technology, and proper business management systems;
v. it has no material breach of laws and regulations in the past 2 years; and
vi. it meets other requirements as prescribed by the SSE.

An eligible applicant for dealer status must submit the following application documents to the SSE:

i. written application;
ii. approval document for securities business;
iii. Master Agreement on Trading of Fixed-Income Securities on the Integrated Electronic Platform it has signed; and
iv. other documents as required by the SSE.

If the application documents are complete, the SSE will accept the application and make a decision on an approval within 5 business days after accepting the application.

ii. Primary Dealers

A securities company or a participant may apply to the SSE for primary dealer status if it meets the following criteria:

i. it has obtained dealer status for trading on the platform;
ii. its net capital is not less than CNY800 million for 6 consecutive months;
iii. it has market-making abilities;
iv. it has in place sound internal control and risk prevention systems;
v. it has strong research ability in the debt securities market; and
vi. it meets other requirements as prescribed by the SSE.

A securities company that is a member of the underwriting syndicate for Treasury bonds issued by the MOF may have priority to obtain primary dealer status. If the application documents are complete, the SSE will accept the applicant and make a decision on an approval within 10 business days after accepting the application.

c. Issuance of Business Rules

In its capacity as an SRO, the SSE issues business rules and notices on the conduct of activities on its markets. The business rules cover listing and disclosure requirements, trading, clearing, and membership practices on the exchange. Most notably, the SSE also issues rules on the management of investors in relation to activities on its market.

A few notable examples of the SSE business rules are shown below:[21]

- Guidelines for the Information Disclosure Management Bylaws of Listed Companies, 2005 (上海证券交易所上市公司信息披露事务管理制度指引)
- Notice on Issuing the Detailed Rules for the Implementation of the Exchangeable Corporate Bond Business, 2014 (上海证券交易所关于发布《上海证券交易所可交换公司债券业务实施细则》的通知)
- Notice on Relevant Issues Concerning Strengthening Risk Controls for Private Placement Bonds of Small and Medium-Sized Enterprises, 2015 (上海证券交易所关于加强中小企业私募债券风险防控工作相关事项的通知)
- Notice on Issuing the Workflow for the Preliminary Review of Corporate Bonds, 2015 (上海证券交易所关于发布《上海证券交易所公司债券上市预审核工作流程》的通知)
- Notice on Issuing the Interim Measures of the Administration of the Business of Non-Publicly Placed Corporate Bonds, 2015 (上海证券交易所关于发布《上海证券交易所非公开发行公司债券业务管理暂行办法》的通知)
- Notice on Issuing the Guidelines for Listed Companies' Postponement of and Exemption from Information Disclosure, 2016 (上海证券交易所关于发布《上市公司信息披露暂缓与豁免业务指引》的通知)
- Notice on Issuing the Guidelines on the Business of the Issuance of Corporate Bonds in Manner of Book-Building, 2016 (上海证券交易所关于发布《上海证券交易所公司债券簿记建档发行业务指引》的通知)
- Notice on Amending Certain Clauses Involving Trading in Bonds of the Trading Rules and the Detailed Implementation Rules for Trading in Bonds, 2017 (上海证券交易所关于修改《上海证券交易所交易规则》及《上海证券交易所债券交易实施细则》涉及债券交易若干条款的通知)
- Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange (Revised 2017) (上海证券交易所债券市场投资者适当性管理办法)
- SSE Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, 2018 (上海证券交易所非公开发行公司债券挂牌转让规则)
- SSE Corporate Bond Listing Rules (Revised 2018) (上海证券交易所公司债券上市规则)

A comprehensive list of regulations and business rules for the exchange bond market, including full titles and effective dates, is available in Appendix 3.

d. Shanghai Stock Exchange Role in Regulatory Processes

Under the 2015 measures, CSRC empowered the exchanges to be part of the regulatory approval process for targeted corporate bonds in an effort to streamline the issuance process for corporate bonds aimed only at Qualified Investors.

The SSE conducts a pre-examination of the issuance eligibility, qualifications, and disclosure information on behalf of CSRC before CSRC gives its final

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[21] Applicable regulations may also be downloaded in Chinese and English from the SSE website. For example, see http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20170628_4334574.shtml.

approval for issuance. This pre-examination is carried out in parallel with the review of the issuer's listing application.

Please also see section F in this chapter for a complete description of the regulatory approval processes for debt securities in the exchange bond market.

3. Shenzhen Stock Exchange

The SZSE is authorized to act as an SRO under the guidance of CSRC, based on Article 14 of the Securities Law and Article 42 of the 2015 measures. Its authority includes the admission of its constituent members and listed companies, and the setting of business rules for such admissions and the listing, trading, and clearing activities on its markets. The SZSE also performs market monitoring and surveillance activities to ensure a fair and orderly marketplace.

For details on listing, disclosure, and the Trading Rules of the SZSE and their underlying regulations, please refer to section K in this chapter.

a. Exchange Members and Participants

Table 2.10 lists the number of member firms, their branches, and total seats held on the SZSE in recent years. The SZSE provides paperless management of memberships through its Online Member Business Zone.

For details on listing, disclosure, and the Trading Rules of the SZSE and their underlying regulations, please refer to section K in this chapter.

Table 2.10: Membership on the Shenzhen Stock Exchange

Year	2014	2015	2016	2017	2018
Number of Member Firms	120	122	114	116	116
Number of Member Branches	7,219	8,212	9,465	10.982	11,557
Number of Seats	9,510	12,456	14,968	19,270	20,890

Note: All totals are year-end figures.
Source: Shenzhen Stock Exchange (SZSE). *SZSE Fact Book*. Shenzhen; SZSE. About—Members. http://www.szse.cn/English/about/members/index.html.

b. Issuance of Business Rules

The SZSE issues business rules as part of its remit as the SRO for participation in and activities on its markets, including for the bond market exchange. Some of the more recent such rules issued include the following:

- Detailed Implementation Rules of Shenzhen Stock Exchange on Block Trades, 2004
- Measures for the Suitability Management of Investors in the Bond Market of Shenzhen Stock Exchange (Revised 2017) (深圳证券交易所债券市场投资者适当性管理办法)
- SZSE Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, 2018 (深圳证券交易所非公开发行公司债券挂牌转让规则)
- SZSE Corporate Bonds Listing Rules (深圳证券交易所公司债券上市规则) (Revised 2018)

A comprehensive list of regulations and business rules for the exchange bond market, including those issued by the exchanges, is available in Appendix 3.

c. Shenzhen Stock Exchange Role in Regulatory Processes

Under the 2015 measures, CSRC empowered the exchanges to be part of the regulatory approval process for non-publicly offered corporate bonds in an effort to streamline the issuance process for corporate bonds aimed only at Qualified Investors.

In consequence, the SZSE conducts a pre-examination of the issuance eligibility, qualifications, and disclosure information on behalf of CSRC before CSRC gives its final approval for issuance. This pre-examination is carried out in parallel with the review of the issuer’s listing application.

Please also see section F in this chapter for a complete description of the regulatory approval processes for debt securities in the exchange bond market.

I. Licensing and Admission of Market Participants

Market participants in the exchange bond market need to be licensed by their relevant regulatory authority and approved by CSRC. In turn, members of the exchange bond market are subject to eligibility criteria, review, and admission by the exchanges. The exchanges govern their constituents across membership classifications using their membership rules (see section J) and respective listing and trading rules (see section K).

J. Membership Rules of the Exchanges

Under the stipulations of an exchange's constitution, a member of the exchange refers to a securities firm with a legal position that is approved by CSRC to be established by law and admitted by the exchange as its member. Due to the unified guidance approach favored by CSRC, the membership criteria and rules of the SSE and SZSE are fundamentally the same.

At both exchanges, members are required to fulfill the following eligibility criteria:

i. be a securities firm with a legal position that is approved by CSRC to be established by law;
ii. enjoy high creditability and outstanding business performance;
iii. have an organizational framework and business executives that are qualified by CSRC and the exchange, and the firm's precautionary measures against technical risks meet the requirements of the exchange;
iv. accept the constitution and business rules of the exchange and pay member's fee, seat fees, and other fees as required; and
v. meet other qualifications as specified by the exchange.

A securities firm submits its application to the exchange, which will accept the firm as one of its members upon the approval by its board of governors.

A member has the following rights:

i. participate in members' meetings,
ii. elect representatives and be elected,
iii. make suggestions about the exchange's business and vote,
iv. participate in securities trading at the exchange's premises and enjoy the services provided by the exchange,
v. oversee the business of the exchange and of other members,
vi. transfer seats provided that one seat is maintained, and
vii. other related rights.

A member undertakes the following obligations:

i. observe the applicable laws, regulations, rules, and policies, and undertake securities business activities pursuant to the law;
ii. adhere to the constitution, business rules, and other relevant regulations of the exchange, and implement resolutions of the exchange;
iii. dispatch qualified representatives to trade securities at the exchange's premises;
iv. fulfill trading and settlement obligations;
v. protect the legal interests of investors;
vi. maintain stability and promote the development of the market;
vii. pay all required fees and provide relevant information and materials;
viii. accept supervision from the exchange; and
ix. fulfill other related obligations.

Information on the membership categories of the exchanges, membership numbers, and related information can be found in section H in this chapter.

K. Exchange Rules for Listing, Disclosure, and Trading of Debt Securities

This section references rules formulated by the exchanges for activities on their markets and that of their constituents. For more details on the roles and functions of the SSE and SZSE as SROs, please see section H in this chapter.

The listing of bonds means that the stock exchange acknowledges and accepts certain types of bonds to be traded in the exchange bond market. Following the unified approach pursued by CSRC, the rules for the listing and trading of corporate bonds and enterprise bonds in the exchange bond market are fundamentally the same on each exchange. However, the SSE and SZSE each publish, manage, and enforce their own rules, subject to the approval from CSRC.

1. Debt Securities Listing Rules

Debt securities intended to be traded or transferred (e.g., through repo or bond lending transactions) in the exchange bond market need to be listed. In order to be listed, the issuer and its bonds need to fulfill certain eligibility criteria specified in the listing rules of the exchanges.

As SROs for their respective markets, the SSE and SZSE are empowered to issue relevant rules for listing and disclosure. The rules that the SSE and SZSE set individually contain similar provisions. Both exchanges stipulate clear provisions on listing conditions, the application for listing and listing approval, information disclosure and sustaining obligations (continuous disclosure), as well as the suspension of listing, resumption of listing, and termination of listing, among other provisions.

Both the SSE and SZSE revised their listing rules, effective 7 December 2018, in order to further standardize relevant business rules and practices for the listing and transfer of corporate bonds, facilitate the stable development of the exchange bond market, and strengthen the protection of rights and interests of bond investors. The new rules cover corporate bonds and other bonds approved by the authorized department of the State Council, as well as listed transactions of bonds issued by overseas registered companies (Panda bonds).

The SSE officially announced the SSE Corporate Bond Listing Rules, 2018 (上海证券交易所公司债券上市规则) and the SSE Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, 2018 (上海证券交易所非公开发行公司债券挂牌转让规则), while the SZSE officially announced its Corporate Bond Listing Rules, 2018 (深圳证券交易所公司债券上市规则) and the Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, 2018 (深圳证券交易所非公开发行公司债券挂牌转让规则).[22]

Further details on the actual listing processes of debt securities on both the SSE and SZSE can be found in Chapter III.I. For provisions stipulating continuous disclosure requirements in the exchange bond market, please refer to section G in this chapter.

2. Trading Rules

The SSE and SZSE each define their respective trading rules for the activities on their markets and platforms. The SSE last revised its Trading Rules (上海证券交易所交易规则) in August 2018, while the SZSE issued its revised Trading Rules (深圳证券交易所交易规则) in September 2016. Their respective trading rules are available in English on the websites of the SSE and SZSE.

Rules for Primary Dealers

The exchanges also issue rules for eligibility criteria, the application process, and the conduct of dealers and primary dealers in their markets. An excerpt below from the SSE rules for primary dealers is provided as an illustration of the contents of such trading rules:

> During the trading hours of the [SSE], a primary dealer shall continuously provide bilateral quotations for the particular fixed-income securities it has selected and the sum of interruption time in its bilateral quotations shall not be more than 60 minutes in [1] trading day. A primary dealer shall determine a special securities account for making markets in fixed-income securities and file the same to the SSE for the record. SSE will appraise the market-making activities of primary dealers on a regular basis and adjust primary dealers accordingly based on the appraisal results.
>
> If a primary dealer wants to terminate making markets in particular fixed-income securities, it shall apply to the SSE [3] trading days in advance and continue to meet its market-making obligation before obtaining approval from SSE.

For further details on the actual trading of debt securities in the exchange bond market, please refer to Chapter IV.

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[22] The Listing Rules are presently only available in Chinese on the SSE website at http://www.sse.com.cn/lawandrules/sserules/listing/bond/c/c_20181207_4689321.shtml; and http://www.sse.com.cn/lawandrules/sserules/listing/bond/a/20181207/748906691a26f6822a6449ea02c09eb9.doc; and on the SZSE website at http://www.szse.cn/disclosure/notice/general/t20181207_563444.html; and http://docs.static.szse.cn/www/disclosure/notice/general/W020181207680391162930.pdf.

L. Market Entry Requirements (Nonresidents)

1. Nonresident Issuers

Nonresident issuers with business operations in the PRC (e.g., the head offices or treasury centers of international corporations) have the opportunity to raise funding in the PRC bond market using the Panda bond concept. This issuance concept is the only avenue for nonresidents to issue debt securities in the PRC.

The use of proceeds from a Panda bond issuance outside the PRC is possible. If a nonresident issuer plans to remit the proceeds from a Panda bond issuance outbound, CSRC may offer help to get approval from the PBOC and SAFE in advance.

Please also see Chapter III.B for a description of Panda bonds and Chapter III.E for information on issuance methods.

2. Foreign Investors

The PRC’s overall capital market, and its bond market in particular, have become more accessible for foreign investors in recent years. As a major development in the free flow of capital and the liberalization of the Chinese renminbi, nonresidents may enter the PRC’s capital market, including the exchange bond market via one of the approved investment channels for foreign investors. These approved channels include the QFII and RQFII schemes.

Please also see section N in this chapter for more details on the QFII and RQFII schemes.

M. Market Exit Requirements (Nonresidents)

1. Nonresident Issuers

There are no specific requirements for nonresident issuers following the redemption of a Panda bond.

2. Foreign Investors—Repatriation of QFII Quota

QFIIs who wish to exit the PRC bond market, including the exchange bond market, or who wish to repatriate all or part of their quota or investment amount, may do so while observing specific provisions in the QFII regulations. See also section N in this chapter for a full description of the QFII concept.

On 12 June 2018, the PBOC and SAFE issued the Regulations on Foreign Exchange Administration for Domestic Securities Investment by QFII and the Circular on the Administration for Domestic Securities Investment by RQFII to facilitate the repatriation of capital and management of foreign exchange risks associated with the securities investments of QFIIs and RQFIIs.

Under these new regulations, the monthly repatriation limit of 20% of a QFII’s assets was removed, as was the requirement for a 3-month capital lockup period for redeeming the investment principal for both QFII and RQFII, allowing a QFII to repatriate the principal and profits of its securities investment in the PRC at any time based on its needs. Under the previous rules, a QFII could only repatriate the principal and profits of its securities investments by installment after the lapse of a 3-month lockup period.

In the case of liquidation, including product liquidation, the QFII custodian may handle the outward remittance of relevant funds and/or close the account for the QFII in accordance with the investor's written application or instruction, the special audit report on returns on investment issued by a certified public accountant in the PRC, and the relevant tax clearance or tax filing certificates.

Please also refer to the SAFE website for QFII and RQFII rules about injection and repatriation of quota.[23]

N. Regulations and Limitations Relevant for Nonresidents

The applicable regulations and possible limitations for nonresidents in relation to the exchange bond market are provided below in detail and grouped according to the key topics of interest for nonresidents.

1. Qualified Foreign Institutional Investor Scheme

The QFII scheme is a transitional arrangement that allows institutional investors who meet certain qualifications to invest in a defined scope of securities products in the domestic capital market in the PRC. The QFII scheme was introduced in 2002 as one of the first efforts to internationalize the Chinese renminbi. It allows global institutional investors to directly invest in the CNY-denominated capital market on a selective basis. Once licensed by CSRC, foreign institutional investors are permitted to buy, within a quota approved by SAFE, CNY-denominated debt securities in the exchange bond market.

Based on CSRC Decree No. 36, promulgated in 2006, a QFII may invest in the following financial instruments denominated in Chinese renminbi within the approved investment quota:

i. stocks, bonds, and warrants traded in or transferred in stock exchanges;
ii. fixed-income products traded in the CIBM;
iii. securities investment funds;
iv. stock index futures; and
v. other financial instruments permitted by CSRC.

A QFII may participate in the issuance of new shares, issuance of convertible bonds, additional issuance of shares, and the purchase of allotted shares. However, QFIIs and RQFIIs are not eligible to participate in bond repos.[24]

A QFII must meet certain eligibility criteria and remit the approved quota amount in foreign currency, then convert the amount into Chinese renminbi.

The first QFII license was awarded in July 2003. Since then, 284 QFIIs—including commercial banks, trust companies, insurers, asset managers, securities firms, sovereign wealth funds, pension funds, and endowment funds—have been approved

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[23] Announcement No. 1 of the State Administration of Foreign Exchange (12 June 2018) http://www.safe.gov.cn/en/2018/0612/1453.html; Regulations on Foreign Exchange Administration for Domestic Securities Investments by Qualified Foreign Institutional Investors (10 June 2018) (PDF file in English) http://www.safe.gov.cn/en/file/file/20180913/6d2d8858afe04753916f7f1c3f39840f.pdf?n=Regulations%20on%20Foreign%20Exchange%20Administration%20for%20Domestic%20Securities%20Investments%20by%20Qualified%20Foreign%20Institutional%20Investors.
[24] See http://bond.sse.com.cn/disclosure/announ/release/c/c_20161212_4213651.shtml.

via this avenue into the PRC's domestic listed securities market, with a total investment quota of USD99.5 billion as of 31 May 2018. The current list of QFIIs can be downloaded from the website of CSRC.[25]

On 12 June 2018, the Government of the PRC stated that it would ease restrictions on foreign institutional investors in a step to further open its financial markets. The new rules for the QFII and RQFII programs will make it even easier for these investors to move funds out of the PRC. Already, the 20% cap on the amount of capital that users of the QFII program were able to remit out of the country at any time has been removed.

2. QFII and RQFII Milestones

Table 2.11: Milestones Related to Foreign Issuer and Investor Participation

Date	Description
8 Sep 2018	The PBOC and MOF jointly issue regulations clarifying qualifications and filing procedures for Panda Bond issuance in the CIBM via public offering or private placement.
8 Aug 2018	CSRC announces the further opening of the exchange market, with entry requirements for QFIIs and RQFIIs to be relaxed, standardized, and harmonized, and the investment scope expanded.
12 Jun 2018	The PBOC and SAFE jointly issue regulations to facilitate the repatriation of capital and the management of foreign exchange risks for securities investment by QFIIs and RQFIIs.
3 Jul 2017	Bond Connect debuts.
Mar 2017	The first Panda bond is issued by a country along the Belt and Road Initiative and is listed on the SSE.
23 Sep 2016	CSRC verbally advises and removes asset allocation restrictions on QFIIs and RQFIIs; QFIIs and RQFIIs are now allowed to decide asset allocation at their discretion.
5 Sep 2016	SAFE further relaxes the RQFII rules on quota application and control, resulting in a simplified quota application process, easier inward and outward remittances, and a shorter lockup period.
May 2016	The CIBM Direct Scheme is launched, which allows foreign institutional investors direct access to the CIBM using a registration approach and bond settlement agent concept.
Feb 2016	Authorities announce foreign institutional investors will be given quota-free access to the CIBM, which will be known as the CIBM Direct Scheme.
Sep 2015	The PBOC eases restrictions on issuers of Panda bonds, allowing proceeds to be used within and outside the PRC.
Jul 2015	The PBOC introduces the CIBM Direct Scheme for foreign central banks, supranational financial institutions, and sovereign wealth funds without a quota and with registration.
Jun 2015	The PBOC permits banks carrying out offshore Chinese renminbi business to engage in bond repurchase agreements in the CIBM.
1 Oct 2014	A single identification code is assigned to QFIIs, RQFIIs, and RMB Special Deposit Accounts for securities trading in order to record investors' identity and securities assets.
2 May 2013	The PBOC announces new rules on account opening, account management, and asset allocation for the RQFII scheme; RQFIIs are permitted access to the CIBM.
Mar 2013	The scope of the RQFII scheme is expanded by CSRC, SAFE, and the PBOC to relax investment restrictions, the 1-year lockup period, and monthly repatriation frequency.
Dec 2012	QFII regulations on foreign exchange are revised, including the quota limit and monthly remittances.
Dec 2011	The RQFII Pilot Program is launched.
Dec 2010	The PBOC, MOF, NDRC, and CSRC amend Panda bond regulations and expand the scope of qualified issuers and use of Chinese renminbi proceeds, including outbound remittances.

[25] See http://www.csrc.gov.cn/pub/csrc_en/OpeningUp/RelatedLists/.

29 Sep 2009	QFII regulations on foreign exchange are revised, including the upper quota limit and capital transfer.
24 Aug 2006	CSRC, the PBOC, and SAFE jointly formalize QFII rules and lower QFII qualifications.
18 Feb 2005	The first Panda bond regulation is issued by the PBOC, MOF, NDRC, and CSRC.
May 2003	The QFII Pilot Program is launched; bonds are limited to listed bonds in the exchange bond market.
5 Nov 2002	The QFII scheme is introduced by CSRC and the PBOC to allow foreign capital to access financial markets in the PRC.

CIBM = China Inter-Bank Bond Market, CSRC = China Securities Regulatory Commission, MOF = Ministry of Finance, NDRC = National Development and Reform Commission, PBOC = People's Bank of China, PRC = People's Republic of China, QFII = Qualified Foreign Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor, SAFE = State Administration of Foreign Exchange, SSE = Shanghai Stock Exchange.
Sources: News releases and other material from BNP Paribas, Citibank N.A., Deutsche Bank, HSBC, Mizuho Securities, SSE, Standard Chartered Bank, and other publicly available sources.

Table 2.11 provides an overview of the milestones in the QFII and RQFII schemes, and of the participation of foreign issuers in relation to the general efforts of the Government of the PRC in opening its markets and internationalizing the Chinese renminbi.

Information on individual milestones can be found in the respective chapters and sections of this bond market guide. To see the development of the QFII quota since the inception of the QFII scheme, please refer to Chapter I.7. For individual allocations of RQFII quotas by market or region, please refer to section N in this chapter.

3. Application Process

The application process to obtain a QFII license and corresponding quota has been significantly simplified in recent years. The necessary steps are outlined below:

i. appoint a designated QFII Custodian;
ii. submit QFII application to CSRC via the designated QFII custodian;
iii. obtain QFII license from CSRC;
iv. submit quota application to SAFE via the designated QFII custodian;
v. obtain QFII investment quota;
vi. apply to open special Chinese renminbi and foreign exchange accounts with the designated QFII custodian;
vii. appoint up to three dedicated QFII brokers;
viii. open up to three securities accounts in CSDC, depending on the number of brokers appointed;
ix. remit funds (quota amount) in foreign currency; foreign exchange transactions are required to be done via the designated QFII custodian;
x. finalize agreements among QFIIs, the designated QFII custodian, and designated broker(s); and
xi. commence investments.

Further details on the eligibility criteria for QFIIs, as well as the application and approval process for a QFII license and quota, are available from the SSE and SZSE websites.[26]

[26] See SSE. Investors—QFII. http://english.sse.com.cn/investors/qfii/procedure/; SZSE. About—QFII. http://www.szse.cn/main/en/QFII/include/About_QFII.html.

4. Renminbi Qualified Foreign Institutional Investors Scheme

Established in 2011, the RQFII scheme is a policy initiative that allows foreign investors who hold an RQFII quota to invest directly in the PRC's equity and bond markets using offshore Chinese renminbi.[27] The introduction of the RQFII scheme relaxed existing restrictions on currency settlement, added permissible asset classes, and expanded investor eligibility.

Table 2.12: RQFII Quotas Granted by Economy and Region

No.	Granted Month and Year	RQFII Quota Granted to Country or Region	Investment Quota (CNY billion)	Allocated Quota (CNY billion)
1	Dec 2011 Jul 2017	Hong Kong, China (originally CNY270 billion)	500	315.137
2	Oct 2013	United Kingdom	80	46.484
2	Oct 2013	France	80	24.0
2	Oct 2013 Nov 2015	Singapore (originally CNY50 billion)	100	74.655
5	Jul 2014	Republic of Korea	120	72.887
5	Jul 2014	Germany	80	10.543
7	Nov 2014	Canada	50	8.653
7	Nov 2014	Australia	50	32.006
7	Nov 2014	Qatar	30	0.0
10	Jan 2015	Switzerland	50	7.0
11	Apr 2015	Luxembourg	50	15.187
12	May 2015	Chile	50	0.0
13	Jun 2015	Hungary	50	0.0
14	Nov 2015	Malaysia	50	1.6
15	Dec 2015	Thailand	50	1.1
15	Dec 2015	United Arab Emirates	50	0.0
17	Jun 2016	United States	250	29.82
18	Dec 2016	Ireland	50	1.1
19	May 2018	Japan	200	0.0
Total			1,940	640.172 (203 entities)

CNY = Chinese renminbi, RQFII = Renminbi Qualified Foreign Institutional Investor.
Note: Data as of 29 September 2018.
Source: ABMF SF1 compilation from information collected from publicly available sources, including http://fund.jrj.com.cn/2018/10/06123625163046.shtml (Chinese version only).

As pilot institutions, subsidiaries in Hong Kong, China of mainland firms and securities companies were able to use their Chinese renminbi raised from business activities in Hong Kong, China to conduct securities investment business in the mainland (bond) market within the approved investment quota. The RQFII quota for a single investor is limited to CNY20 billion.

[27] On 16 December 2011, the PBOC, CSRC, and SAFE jointly issued the Measures for Pilots of Domestic Securities Investment by Qualified Foreign Institutional Investors of Fund Management Companies and Securities Companies to allow fund management companies to meet certain qualifications.

As of 29 September 2018, the Government of the PRC had granted a total investment quota amounting to CNY1,940 billion to investors in 20 countries and regions. At the same time, CSRC had granted 203 individual RQFII licenses, with a total allocated quota of CNY640.2 billion (Table 2.12).

5. RQFII Application Process

The application process to obtain an RQFII license and corresponding quota has been significantly simplified in recent years. The actual steps necessary are comparable to those for a QFII (see section 3), with the exception that there is no need to open a foreign currency account.

SAFE typically allocates a RQFII quota within 1 month of receipt of the application but distinguishes between quotas for open-ended funds and for other products or funds.

6. Foreign Exchange Controls

The Chinese renminbi is the currency of the PRC. While the official currency code for the Chinese renminbi is “CNY,” the currency is most often abbreviated or referred to as “RMB,” including in official publications. The Chinese renminbi is freely convertible from and into other currencies, but it may not be used outside of the PRC. Instead, the PRC offers the use of offshore Chinese renminbi, which is referred to as “CNH,” to be held in accounts and transacted outside the PRC, but not in its domestic market. Commercial banks and other financial institutions in Hong Kong, China; the PRC; and in designated Chinese renminbi offshore centers, which are known officially as “offshore RMB centers,” are able to facilitate the exchange from onshore to offshore Chinese renminbi and vice versa.

Foreign exchange transactions, with the exception of the initial remittance of QFII or RQFII quota amounts, are required to observe the real demand principle; that is, the customer must prove to the executing financial institution that an underlying transaction exists to support a foreign exchange transaction. In the context of the investment of debt securities, the custodian of the investor will normally keep records for both the securities and foreign exchange transaction to fulfill this requirement. Violations may attract heavy fines.

7. Bank Accounts in Domestic or Foreign Currency

Under the provision of the QFII and RQFII schemes, nonresident investors in the exchange bond market can open a foreign currency account for their funding currency as well as a Chinese renminbi account for the settlement of foreign exchange and securities transactions. The CNY-denominated account is referred to as a “Special CNY Account” since it is opened for a particular purpose. Transactions were originally limited to foreign exchange and securities trades, as well as the placement of funds to maximize returns. The latest regulations promulgated in June 2018 allow QFIIs and RQFIIs to hedge exchange rate risk through entering into CNY–foreign currency derivative transactions, using their Special CNY Account. While the opening of CNY-denominated accounts by foreign institutions is subject to regulations issued by the PBOC, the opening of a Special CNY Account itself is not subject to the approval of the PBOC.

8. Intermediary Limitations

When investing in the PRC’s capital market, including the exchange bond market, QFIIs and RQFIIs are required to appoint one designated QFII custodian and (up to) three RQFII custodians as well as three designated brokers for all their transactions. QFIIs may only appoint one custodian, while for RQFIIs, it could be up to three custodian banks. The intention of this limitation is that transactions of QFIIs and RQFIIs are easier to be managed against the QFII or RQFII provisions on limitations in investment or ownership in certain products or debt securities.

9. Foreign Ownership Limitations and Other Information Disclosure Requirement

There are no outright foreign ownership limitations in the exchange bond market. At the same time, foreign ownership disclosure obligations for debt securities may apply to QFIIs and are limited to the acquisition and holding of convertible bonds.

If a QFII were to acquire or hold more than 20% of the total amount of convertible bonds issued by a listed company, a specific disclosure obligation will need to be observed. This amount (20%) represents the initial threshold for reporting on convertible bonds. Further purchases of the same convertible bond would constitute another reporting event.[28]

The Substantial Shareholder Reporting Entity (SSRE), which is so referred to in applicable regulations, here a QFII, must submit a report to CSRC, the exchange on which the stock of the company issuing the convertible bonds is listed, and the listed company itself. It must also make an announcement to the general public via one of the media designated by the CSRC, which include the China Securities Journal, Securities Times, and Shanghai Securities News. Such report must include the following:

i. name and domicile of the SSRE;
ii. name of the listed company;
iii. change in the number of shares held or controlled by the SSRE;
iv. how the changes in the shareholding were effected (i.e., through securities trading, a contractual share transfer, an administrative allocation, or a court ruling); and
v. all transactions in the shares of the listed company conducted by the SSRE over the previous 6 months.

10. Borrowing and Lending

Nonresident investors are not permitted to formally borrow or lend money through their Special CNY Account. This excludes treasury transactions, such as the placement of funds from the account in return for the payment of interest.

Currently, QFIIs and RQFIIs are not able to participate in exchange bond repo transactions. The Administrative Measures on Domestic Securities Investment of Qualified Foreign Institutional Investors and the Regulations on Implementing the Relevant Issues Concerning the Measures for the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors specify that Qualified Investors may, within the approved investment quota, invest in those CNY-denominated financial instruments that are shown on the included positive list; repo transactions are presently not included on that list.

Please see also Chapter IV.I for more information on repo transactions in the exchange bond market.

[28] For further information on the foreign ownership disclosure obligation for QFIIs, please refer to the SSE website at http://english.sse.com.cn/overseasinvestors/qfii/disclosure/.

O. Regulations on Credit Rating Agencies

This section covers the regulations and requirements applicable to CRAs operating in the PRC. For the actual credit rating requirements in the PRC bond market and the application of such credit ratings in the issuance process of bonds, please refer to Chapter III.O.

At present, there are eight major CRAs in the PRC bond market. Two of these are joint domestic–foreign ventures; one is engaged in technical cooperation with a foreign enterprise, and the remaining five are domestically funded agencies.

The PBOC serves as the main supervisory authority of the credit rating industry. As such, it is mainly responsible for drafting the relevant rules and regulations governing the credit rating system, and drawing up development strategies and policies, among many other responsibilities. CSRC supervises credit rating activities in the exchange bond market while NDRC oversees credit ratings for enterprise bonds.

As of December 2018, only domestic rating agencies had been accredited in the PRC bond market. However, both Fitch Ratings and Standard & Poor’s have indicated that they will seek licenses to launch credit rating units in the PRC.

On 12 May 2017, the MOF issued the Initial Results of the 100-Day Action Plan of the China–United States Comprehensive Economic Dialogue in which Article 5 sets out that by 16 July 2017, the PRC was to allow wholly foreign-owned financial services firms to provide credit rating services and begin the licensing process for credit investigation. CSRC shared this approach toward opening up the credit rating industry and removed the equity cap on foreign ownership in the administrative licensing process, effective 16 July 2017, and permitted wholly foreign-owned enterprises and the holding subsidiaries of overseas rating agencies in the PRC to apply for a securities credit rating license.

Subsequently, in September 2018, the PBOC and CSRC jointly released Announcement No. 14, which stipulated the gradual unification of the CIBM and exchange bond market credit rating business qualifications. It was aimed at strengthening the sharing of information on the supervision of CRAs, promoting the improvement of the internal system of CRAs, unifying the rating standards, and improving the quality of credit ratings.

P. Regulations on Securities Pricing Agencies

This section explains the regulations and requirements applicable to securities pricing agencies operating in the PRC. Information on the pricing of bonds in the exchange bond market can be found in Chapter III.K.

Presently, there are no dedicated securities pricing agencies operating in the exchange bond market. Both the SSE and SZSE provide quotations and traded prices on a daily basis but leave the calculation of projected prices or those for debt securities without a daily traded price to a joint subsidiary.

The China Securities Index Co., Ltd. (CSI) (中证指数有限公司) was established on 25 August 2005 as a joint venture between the SSE and SZSE, under guidance from the chairman of CSRC at the time of formation. CSI is a professional business entity specializing in the creation and management of indices and index-related services; it also carries out securities pricing to support the index’s calculation. CSI is registered with the Free Trade Pilot Zone Market Authority.

CSI is dedicated to serving the capital market and promoting financial innovation, relying on the information and technical advantages of the two exchanges. Focusing on the series of CSI indices, exchange indices, and customized indices, CSI aims to become the leading index provider in the PRC.

CSI's significant policies and procedures included the following:

- Control Framework of Index Business of China Securities Index Co., Ltd., issued 14 December 2018;
- Terms of Reference of the Index Oversight Committee of China Securities Index Company Limited, issued on 17 December 2018; and
- the Current Members of the Index Oversight Committee of China Securities Index Company Limited, issued on 17 December 2018.

In March 2017, CSI was also officially approved to engage in credit rating services for the PRC's securities market. More information on CSI and its services is available from its website.[29]

[29] See http://www.csindex.com.cn/.

III

Exchange Bond Market Characteristics

The PRC bond market consists of a number of market segments that are defined by separate regulatory frameworks, participants, and market practices. This chapter details market characteristics that can be observed in the exchange bond market.

A. Definition of Securities and Bonds

The legal and regulatory framework does not contain a universal definition of "securities." Instead, individual concepts of securities may differ by competent authority. A number of relevant instances of securities are shown in this section for practical reference.

1. Definitions in the Securities Law and Company Law

The definition and prescriptions for the issuance of corporate bonds are contained in the Company Law. Companies may decide to issue corporate bonds by following the protocol specified in the law, subject to the approval of the management of the company.

Article 2 of the Securities Law defines securities as "shares, corporate bonds, and such other securities as are lawfully recognized by the State Council."

In the Company Law, "corporate bonds" are defined as valuable securities issued by a company according to legally prescribed procedures and pursuant to company covenants to repay the principal and interest within a certain period of time.

2. Reference to Debt Securities in Rules of the Exchanges

In their rules, the SSE and SZSE refer to bonds as Treasury bonds, local government bonds, policy financial bonds, enterprise bonds, corporate bonds, and convertible bonds. As is explained in Chapter III.B, each of these terms has a specific meaning in the context of the China bond market, or even the exchange bond market itself, and often distinct issuance, disclosure, and trading practices, set by the relevant regulatory authority, the exchanges, and market practices.

3. Debt Securities in China Securities Depository and Clearing Co., Ltd. Regulations

There are no specific definitions of "securities" or certain types of securities or bonds in the rules and regulations of CSDC. The terminology used in CSDC rules and regulations, and the application of bond types is consistent with their use in the Securities Law, the Company Law, the Measures for the Administration of Securities Registration and Settlement, and other rules and regulations, including those of the exchanges.

At the same time, Article 9 of the Securities Registration Rules of CSDC, issued in 2019, specifies to which types of securities the initial registration process of securities with CSDC applies:

> The initial registrations of securities include the registrations of IPO, warrant issue, fund-raising, enterprise and corporate bond issue, book-entry Treasury bond issue, additional offering, right issue, and fund expansion.

4. Bonds versus Notes

In principle, debt instruments in the exchange bond market are referred to as “bonds” and fulfill the general definition of bonds (driven internationally by laws, regulations, and accounting rules) in that they have a minimum tenor of 1 year. Pursuant to the Securities Law, the tenor of publicly offered corporate bonds needs to be more than 1 year.

In contrast, the term “notes” is used in international markets for different types of debt instruments, without any restriction on their tenor. However, the term notes is typically not used in debt securities descriptions in English in the exchange bond market.

At the same time, securities companies can issue one particular type of debt securities in the exchange bond market with a tenor of less than 1 year. (Please also see section B.5 in this chapter for more information on these specific instruments.)

In light of the above understanding of bonds, and since “short-term bonds” would sound peculiar, this bond market guide will refer to this type of debt securities as “securities companies’ short-term notes” and will continue to use the term "bonds" for debt securities with a tenor of 1 year or more.

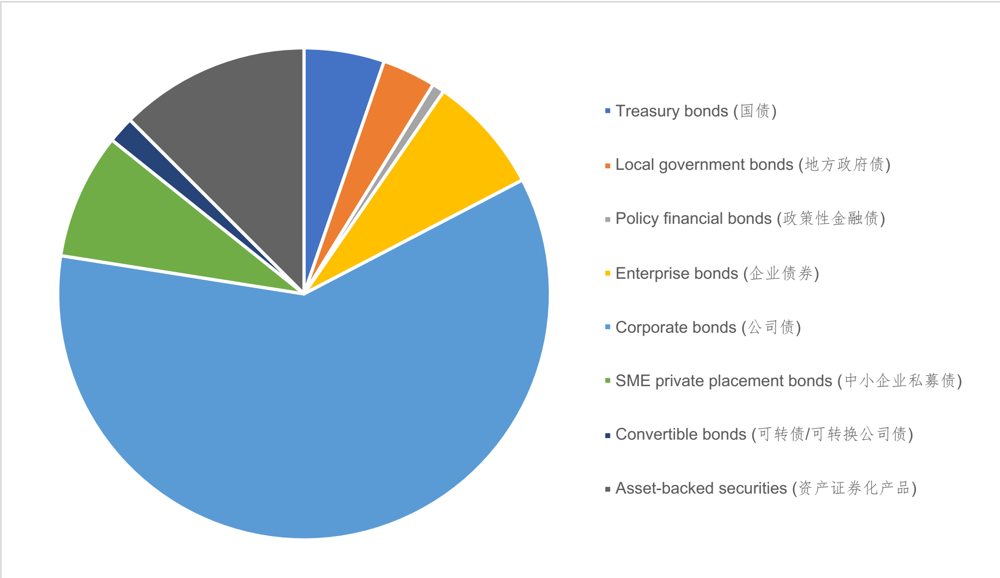
B. Types of Bonds

Bonds issued in the PRC bond market include many different debt instruments issued by a variety of issuers, catering to a number of different investor types. Not all debt instruments may be found in every market segment.

In the exchange bond market, the main types of bonds include Treasury bonds, corporate bonds, enterprise bonds, and ABS. A representative breakdown of the magnitude of the issuance of each debt securities type at the end of 2018 is shown in Figure 3.1. Section D in this chapter has a detailed breakdown of debt securities types and their corresponding numbers over a 5-year period.

From the perspective of the value of investor positions and the distribution of trading volume, individual investors account for a very small proportion, while the majority of holdings and trading sit with institutional investors such as investment funds, commercials banks, and securities companies. Bonds issued in the exchange bond market are increasingly targeted primarily at professional investors (see Chapter I and Chapter IX for a detailed explanation).

Figure 3.1: Magnitude of Issuance by Debt Securities Type



SME = small and medium-sized enterprise.
Notes: Data as of 31 December 2018. Bonds (at par value) deposited with the China Securities Depository and Clearing Co., Ltd. SME private placement bonds are part of corporate bonds.
Source: China Securities Depository and Clearing Co., Ltd. Debt Securities Issuance. http://www.chinaclear.cn/zdjs/tjyb1/center_tjbg.shtml.

1. Treasury Bonds

Treasury bonds are national debt instruments issued in Chinese renminbi by the MOF on behalf of the central government. There are two types of Treasury bonds: book-entry Treasury bonds and savings bonds.

Book-entry Treasury bonds are mainly available to institutional investors in two varieties: coupon bonds and discount bonds. Coupon bond tenors include 1 year, 2 years, 3 years, 5 years, 7 years, 10 years, 20 years, 30 years, and 50 years. There were no 20-year bonds outstanding at the time of the compilation of this bond market guide.

Book-entry Treasury bonds are issued by tender through the CCDC platform for new issues and are listed or registered and traded in both the exchange markets and the CIBM, with the CCDC generally acting as depository. Treasury bonds listed on the exchange market are registered with CSDC, which facilitates book-entry transfers between investors in the exchange market while acting as a subregistry in the books of CCDC. Central government bond positions are fungible between the two markets.

2. Local Government Bonds

Local government bonds are issued by local governments that generate fiscal revenue. Local government financing platforms (地方政府融资平台) established by local governments to fund various projects such as municipal construction and public utilities are no longer able to issue bonds. The funds raised by local governments are generally used for transportation, communications, housing, education, hospitals, sewage systems, and other local public infrastructure. Local government bonds are classified into general bonds and project bonds.

The maturity of general local government bonds may be 1, 3, 5, 7, 10, or 20 years, and the prevailing maturities for project bonds are 3, 5, 7, and 10 years. Other maturities such as 1–2 years, or longer than 10 years, are possible, depending on the nature of the project. The most recent long-term local government bonds have a 20-year maturity.

In the past, local government bonds were issued by tender or as a target issue. However, local government bonds issued with a target issuance method cannot be listed on the exchanges. In order to further improve the issuance method of local government bonds and improve the efficiency of local government bond issuance, the MOF decided to implement a system of public underwriting for local government bonds. Consequently, the MOF formulated the Regulations on the Public Offering and Issuance of Local Government Bonds (Caiwan No. 68) (地方政府债券公开承销发行业务规程) and announced the new procedure on 30 July 2018 (see also section E.1 in this chapter for more details).[30]

3. Policy Financial Bonds

Policy financial bonds (PFBs) are issued by the policy banks and used to have the largest outstanding amount among onshore bond types with high liquidity. From 2014 to 2017, the PFB market was slightly larger than the government bond market. However, since July 2018, the value of outstanding PFBs has been less than government bonds and local government bonds combined.

There are three policy banks in the PRC; each was established in 1994:

i. **China Development Bank (CDB).** CDB bond issuance represents the largest portion among the three PFBs; CDB is the world's biggest development finance institution.
ii. **Agricultural Development Bank of China (ADBC).** ADBC provides policy financial support to the agricultural sector.
iii. **Export–Import Bank of China (EXIM).** EXIM supports the PRC's foreign trade and investment.

The three policy banks are fully owned by the central government and, hence, are considered equal to sovereign (Treasury) bonds. They are rated accordingly by all international rating agencies.

In statistical and other official publications, PFBs are often subsumed into the overall category of financial bonds, which are defined as bonds issued by regulated financial institutions (e.g., policy banks, commercial banks, insurance institutions, and non-bank financial institutions). However, financial bonds other than those issued by policy banks are only issued and traded in the CIBM. Even PFBs are mainly traded in the CIBM. In the exchange bond market, the number of listed and traded PFBs is relatively small. In contrast to central and local government bonds, PFBs listed and traded in the exchange bond market cannot be traded in the CIBM and vice versa, thus separating the two platforms. As a consequence, PFB positions are not fungible between the exchange market and the CIBM.

4. Enterprise Bonds

There are two main types of nonfinancial corporate bonds in the PRC: enterprise bonds and listed company bonds (also known as corporate bonds). Enterprise bonds are mainly issued by non-listed state-owned enterprises (SOEs) or government-backed entities. NDRC is responsible for supervising the issuance of enterprise bonds.

[30] See http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/zgcjb/201808/t20180822_2995070.html; and http://gks.mof.gov.cn/guozaiguanli/difangzhengfuzhaiquan/201808/t20180815_2988486.html.

For historical reasons, enterprise bonds have always been supervised by NDRC as a government agency overseeing SOE reform.

SOEs started issuing enterprise bonds in the early 1980s as an alternative to bank loans. After the launch of the CIBM in 1997, enterprise bond issuance began in the CIBM. In 2005, the exchange market started, which presented the issuing entities with an opportunity to sell their bonds in either market. Today, almost all enterprise bonds are fungible between the CIBM and the exchange bond market.[31] As a result, many enterprise bonds became both exchange listed and NAFMII registered—the market term for such practice is “dual-listed.”[32] At the end of 2017, about one-third of enterprise bonds were originally issued and traded in the exchange market, with two-thirds originally registered in the CIBM.[33]

An important component of enterprise bonds are the local enterprise bonds, also referred to as municipal corporate bonds（城投债）, which represented three-fourths of enterprise bonds outstanding at the end of 2017. Municipal corporate bonds are bonds issued by local government financing vehicles, which are state-owned enterprises, to support local infrastructure investment at the provincial and city levels. Notably, municipal corporate bonds’ credit status is the same as other regular corporate bonds.

5. Securities Companies’ Short-Term Notes

Securities companies are able to issue short-term debt securities in the exchange bond market. These debt securities are the only instruments with a tenor of less than 1 year in the exchange bond market; hence, the use of the term notes. These short-term notes are not considered money market instruments and are traded on exchange like other debt securities and settled in and held by CSDC. In their nature, these short-term notes are akin to commercial paper issued in the CIBM.

6. Corporate Bonds

Corporate bonds refer exclusively to nongovernment bonds issued for, and traded in, the exchange bond market. This is regardless of whether a bond is issued by a stock exchange-listed company or a non-listed company. The issuance of publicly offered corporate bonds is subject to CSRC approval (see also Chapter II.F). The issuance of privately placed corporate bonds is not subject to the prior approval of CSRC. Privately placed corporate bonds are also listed on the exchanges.

Corporate bond issuance may be undertaken through a public offer or non-public offer, which is equivalent to a private placement in the exchange bond market (see also section E). Corporate bonds are listed for trading on the stock exchanges or may be traded or transferred through the NEEQ platform. Due to the focus on the exchange bond market, the securities registration of and settlement for corporate bonds is handled by CSDC.

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[31] Per Standard Chartered Bank, government bonds, local government bonds, and enterprise bonds—but not policy financial bonds and corporate bonds—are fungible between the exchange market and the CIBM.
[32] Wang, Wei, and Zhong (Wang, Shujing, Kuo-chiang Wei, and Ninghua Zhong, 2015. One Bond, Two Prices: The Demand Effect of Yield-Chasing Retail Investors. Working paper); and Chen et al. (Chen, Hui, Zhuo Chen, Zhiguo He, Jinyu Liu, and Rengmin Xie, 2018, Pledgeability and Asset Prices: Evidence from the Chinese Corporate Bond Markets, working paper, Chicago Booth.) study dual-listed enterprise bonds.
[33] M. Amstad and Z. He. 2018. Chinese Bond Market and Interbank Market. In M. Amstad, S. Guofeng, and W. Xiong, eds. *The Handbook on China’s Financial System.* Forthcoming.

a. Corporate Bond Varieties

Corporate bonds may be issued as straight bonds, convertible bonds, or exchangeable bonds, or come with equity warrants.

i. Convertible Bonds

Issued by domestic listed companies, convertible bonds can be converted into shares of the issuer based on the terms and conditions within a stipulated time, but not within the first 6 months after the issuing date. The maturity of convertible bonds can be 1–6 years.[34]

ii. Exchangeable Bonds

Unlike convertible bonds, exchangeable bonds carry the right to exchange the bonds for the equity of a company other than the bond issuer, typically an affiliate, subsidiary, or other related company of the bond issuer. The exchange ratio and other conditions are part of the terms and conditions of the bonds upon issuance, and the exchange mechanism is similar to that for convertible bonds. Exchangeable bonds have a minimum tenor of 1 year, while most such bonds have a tenor of 3–5 years.

iii. Equity Warrant Bonds (Detachable Convertible Bonds)

Equity warrant bonds, in local practice also referred to as "detachable convertible bonds," are debt securities that incorporate warrants, which give the holder the option to purchase equity in the issuer, its parent company, or another company during a predetermined period or on one particular date at a fixed contract price. In effect, equity warrant bonds are convertible corporate bonds of which the subscription right (warrant) and the underlying bond are tradable separately. The maturity for equity warrant bonds is at least 1 year.

b. Typical Issuance Formats of Corporate Bonds

Corporate bonds in the exchange bond market are issued in two formats: publicly offered corporate bonds and non-publicly placed corporate bonds (equivalent to a private placement). The latter of which also includes SME private placement bonds.

Publicly offered corporate bonds can be further divided into three subtypes: (i) corporate bonds publicly offered to general and public investors, (ii) corporate bonds publicly offered to Qualified Investors only, and (iii) corporate bonds publicly offered to QIIs.

Within the non-public placement (private placement) category, investors are limited to institutional investors within the category of Qualified Investors.

Please also see section E in this chapter for more details on issuing and offering methods for bonds in the exchange bond market.

[34] Pursuant to the CSRC Measures for the Administration of Securities Issuance of Listed Companies.

c. Issuance Qualifications for Corporate Bonds

A company may issue corporate bonds to raise funds for production or operations provided the company meets the following requirements for the public issuance of corporate bonds stipulated in Article 16A of the Securities Law:

i. the net assets of the company shall not be less than CNY30 million for a joint stock company and not less than CNY60 million for a limited liability company;
ii. the aggregate amount of bonds issued shall not exceed 40% of the total net assets of the company;
iii. the average distributable profits over the last 3 years must be sufficient to meet 1 year's interest payment on the company bonds;
iv. the use of proceeds must conform to the industrial policy of the State Council;
v. the interest rate payable on the corporate bonds shall not exceed the levels set by the State Council;
vi. the proceeds of newly issue corporate bonds must be used for the purposes approved by the competent authorities and shall not be used to cover losses or for nonproduction expenditure purposes; and
vii. other requirements prescribed by the State Council shall be met.

d. Limitations for Reissuance of Corporate Bonds

Pursuant to Article 18 of the Securities Law, a company may not publicly issue corporate bonds again if any of the following circumstances occur:

i. the corporate bonds of the previous public offering have not yet been fully subscribed;
ii. corporate bonds or other debts that have been publicly issued have defaulted, or the payment of principal and/or interest has been delayed; or
iii. the provisions of this law are violated, or the use of funds raised by publicly issued corporate bonds has changed.

7. Panda Bonds

Panda bond is the official term used to denote a CNY-denominated bond issued by a foreign entity in the PRC. Panda bonds can be issued in both the exchange bond market and the CIBM. Panda bonds can also be issued through a public offering or as a private placement. In features and tenor, Panda bonds follow the practices for corporate bonds in the PRC bond market.

In 2010, the PBOC, MOF, NDRC, and CSRC jointly issued amendments to the so-called Panda bond regulations, which were known officially as the Interim Measures for Administration of Issuing Renminbi Bonds by International Development Institutions (No. 10). These regulations expanded the scope of qualified issuers and the use of Chinese renminbi proceeds, particularly with a significant liberalization of CNY-denominated remittances out of the PRC resulting from Panda bond issuance.

In September 2018, in order to further promote the opening of the bond market and regulate issuances from overseas institutions, with the approval of the State Council, the PBOC and MOF jointly issued the Interim Measures for the Administration on Bond Issuances by Foreign Entities in the CIBM (全国银行间债券市场境外机构债券发行管理暂行办法) (No.16); at the same time, the 2010 interim measures mentioned above were formally abolished.

These 2018 interim measures further clarified the qualifications and filing procedures for overseas institutions to issue Panda bonds, and laid out provisions on information disclosure, issuance filing, custody, settlement, as well as on CNY-denominated account opening, fund exchange, and investor protection. The release of the 2018 interim measures improved the institutional arrangements for overseas institutions to issue bonds in the CIBM, aligned domestic institutional rules with international standards, and helped further the internationalization of the PRC bond market.

Issuance requirements for Panda bonds privately placed to QIIs are less stringent in comparison to public offerings in the PRC with regard to the selection of language and the contents of disclosure information, as the issuer and QIIs can agree on specific criteria, such as the usage of English in documentation, concise disclosure without using a bond prospectus, and the use of accounting standards applied in the issuer's jurisdiction.

The submission of the applicable filing document(s) in English to regulatory authorities may not yet be accepted at present. In addition, the direct applicability of the 2018 interim measures to the exchange bond market has not yet been confirmed.
In February 2019, it was confirmed that CSRC was consulting with the MOF on releasing measures for similar treatment of Panda bond issuances in the exchange bond market.

According to the PBOC, between January 2005 and the end of August 2018, foreign institutions issued Panda bonds with an aggregate value of CNY178.2 billion.

8. Asset-Backed Securities

ABS are bonds backed by a financial asset pool with a number of assets bundled together by the issuer. Cash flows generated by the assets in the pool will be used for the payment of principal and interest of the issued ABS.[35] Currently, two types of asset securitization exist in the PRC: enterprise ABS and credit ABS.

In the exchange bond market, the SSE and SZSE have issued several guidelines related to ABS. On 25 November 2014, the Guidelines on Asset Securitization Business (上海证券交易所资产证券化业务指引), which specified details for ABS listing and transferring, investor qualifications, and information disclosure. According to the guidelines, both QFIIs and RQFIIs are eligible to invest in ABS.

Other issued guidelines include the following:

- Revised Guidelines for Asset Securitization of the Shanghai Stock Exchange (上海证券交易所资产证券化业务指引) in January 2016
- Guidelines for the Confirmation of the Listing Conditions of the Assets Support Securities of the Shanghai Stock Exchange (上海证券交易所资产支持证券挂牌条件确认业务指引) in June 2017
- Shanghai Stock Exchange Assets Support Securities Credit Risk Management Guidelines (Trial) (上海证券交易所资产支持证券存续期信用风险管理指引(试行) in March 2018
- Shanghai Stock Exchange Assets Support Securities Periodic Report Contents and Format Guidelines (上海证券交易所资产支持证券定期报告内容与格式指引) in May 2018

[35] Text of this section has been adapted in part from CCDC. 2016. *Overview of China's Bond Market*. Beijing.

- Notice on Further Promoting Asset Securitization of Government and Social Capital Cooperation (Public–Private Partnership) Projects (关于进一步推进政府和社会资本合作(PPP)项目资产证券化业务的通知) in July 2017
- Shenzhen Stock Exchange Guidelines for the Confirmation of Listing Conditions for Asset-Backed Securities (深圳证券交易所资产支持证券挂牌条件确认业务指引) in June 2017

The above documents together constitute the SSE Asset Securitization Business Rules System. At the same time, the SSE is continuing to improve and enrich the business rules in line with market needs.

In effect, the guidelines specify the principal requirements and application procedures for the listing and trading of ABS. Scheme managers should confirm whether the conditions for listing and trading have been met before ABS are issued and ensure that sound business processes are followed. The guidelines also strengthen the management of suitability for investors by specifying the scope of eligible investors.

In order to enhance market transparency, the guidelines stipulate the requirements for information disclosure on ABS at the time of issuance and during their tenor. Furthermore, the guidelines clarify risk control measures and the continuing obligations in all business processes of the asset securitization, with a view to protecting the legal rights and interests of investors. Finally, the guidelines also allow the use of collateralized repo for ABS, pursuant to the relevant regulations of the SSE and SZSE.

a. Enterprise Asset-Backed Securities

Enterprise ABS are issued by securities companies, with the securities representing a company's collective asset management business in a special purpose vehicle. The underlying assets are assets other than credit assets, such as future earnings from rights to charge fees. The securities are mainly issued and traded in the exchange bond market on the fixed-income platform of the SSE and the comprehensive protocol platform of the SZSE. Enterprise ABS are supervised by CSRC and registered at and deposited with CSDC.

b. Credit Asset-Backed Securities

Credit ABS (i.e., credit asset securitization) are mainly supervised by the CBIRC and PBOC, and mainly traded on the asset-backed commercial paper platform in the CIBM under the guidance of NAFMII; trust companies play a role as trustee institutions in the course of the securitization of credit assets.

C. Money Market Instruments

Due to the nature of the exchange bond market, money market instruments are limited to the trading of repos on the basis of underlying eligible debt securities, subject to the conditions and trading rules of the respective exchange.

1. Repurchase Agreements

Bond repo transactions in the PRC feature one of two styles: pledged repo (also referred to as collateral repo) and outright repo. While the SSE retains the buyout repo, almost all repo varieties are pledged repo, amounting to roughly 97% of the total transaction volume, while outright repo amounts to only about 3%.[36]

For more details on repo in the exchange bond market, please refer to Chapter IV.H.

D. Segmentation of the Market

Table 3.1 gives an overview of the various debt instruments listed and traded in the exchange bond market—using the example of the SSE market—and their respective proportions of bonds outstanding at the end of 2018. All debt securities listed and traded on the exchange market are deposited with CSDC.

Table 3.1: Bonds Listed on the Shanghai Stock Exchange by Type

Bond Type (债券现货)	Number of Listed Securities (托管只数)	Par Value (托管面值) (CNY billion)	Market Value (流通市值) (CNY billion)
Treasury bonds (国债)	200	544.55	547.46
Local government bonds (地方政府债)	2,877	359.93	359.69
Policy financial bonds, insurance company bonds, securities company bonds (政策性金融债, 保险公司债, 证券公司债)	19	72.72	73.92
Enterprise bonds (企业债)	2,108	678.96	685.03
Corporate bonds (公司债券) total	4,506	5,775.56	5,741.81
Publicly offered corporate bonds (公开发行公司债券)	2,158	3,097.82	3,072.37
Non-publicly placed corporate bonds (非公开发行公司债券)[a]	2,283	2,543.45	2,535.55
Exchangeable corporate bonds (可交换债) (non-publicly placed)	65	134.29	133.89
Convertible bonds (可转换公司债)	50	111.07	115.65
Detachable convertible bonds (分离式可转债)	–	–	–
Asset-backed securities (资产支持证券)	2,329	841.25	840.88
Total	**12,089**	**8,384.05**	**8,364.43**

CNY = Chinese renminbi.
[a] includes small and medium-sized enterprise private placement bonds.
Note: Data as of 28 December 2018.
Source: Shanghai Stock Exchange. Bond Data. http://www.sse.com.cn/market/bonddata/statistic/.

The number of listings grew by more than 460% from 2,603 in 2014 to 12,089 in 2018. These listings are dominated by local government bonds and enterprise bonds, yet in terms of value, corporate bonds and ABS are the prominent types of debt securities.

[36] SSE. 2018. *Shanghai Stock Exchange Trading Rules (Revised 2018)—Chapter III, Section 8, Article 3.8.2*. Shanghai.

On the SZSE, local government bonds are followed by corporate bonds in terms of the number of listings at the end of 2018. In terms of market value, corporate bonds, ABS, and the subordinated bond issuances of securities companies dominate (Table 3.2).

Table 3.2: Bonds Listed on the Shenzhen Stock Exchange by Type

Bond Type (债券现货)	Number of Listed Securities (上市数目)	Market Value (流通市值) (CNY billion)
Treasury bonds (国债)	200	16.80
Local government bonds (地方政府债)	2,877	20.90
Government support bonds (政府支持债券)	8	8.56
Policy financial bonds (政策性金融债)	5	26.95
Securities company subordinated bonds (证券公司次级债)	44	1,05.08
Securities company short-term notes (证券公司短期债)	15	43.00
Enterprise bonds (企业债)	12	5.25
Corporate bonds (公司债券) total	1,344	1,292.05
Publicly offered corporate bonds (公开发行公司债券)	578	599.41
Non-publicly placed corporate bonds (非公开发行公司债券)[a]	690	641.52
Exchangeable corporate bonds (可交换公司债)	1	0.8
Non-publicly placed exchangeable corporate bonds (非公开发行可交换公司债券)	75	50.33
Convertible bonds (可转换公司债)	61	72.46
Innovative and entrepreneurial convertible bonds (创新创业可转换债券)	2	0.07
Detachable convertible bonds (分离式可转债)	0	0
Asset-backed securities (资产支持证券)	336	308.74
Total	**4,904**	**1,899.86**

CNY = Chinese renminbi.
[a] includes small and medium-sized enterprise private placement bonds.
Note: Data as of 28 December 2018.
Source: Shenzhen Stock Exchange. Market Data.
http://www.szse.cn/market/periodical/documents/P020180328482567600289.html.

E. Methods of Issuing Bonds (Primary Market)

In cases when the issuance and trading of debt securities are not covered by the Securities Law, the provisions of the Corporation Law, or other laws, and the relevant administrative regulations issued by the regulatory authorities apply, depending on the industry, issuer, and type of securities.

The methods of issuance for individual types of debt securities, and those employed by the various issuer types, are explained in further detail in this section.

On 30 July 2018, the MOF promulgated the Procedures for the Local Underwriting of Local Government Bonds (Caiwan No. 68), which improved the method of issuing local government bonds; in addition to allowing bidding and issuance via book-building, it helped increase the instances of public underwriting. Local government bonds are also issued through the MOF's government bond issuance system. In addition to the book-building method, the government bond issuance systems of the MOF at the SSE and the SZSE can each support tender issuance, public underwriting, and the corresponding distribution method. Locally issued local government debt (i.e., debt not issued via the MOF system) cannot be listed on the exchange market.

1. Issuance Types for Government Bonds

a. Issuance of Government Bonds

Government bonds involve book-entry Treasury bonds and savings bonds. Savings bonds are issued in the commercial bank over-the-counter market, while the book-entry Treasury bonds can be issued across markets (exchange and CIBM) through open tendering. Within the underwriting limit, the members of the underwriting group can conduct bond distribution to the public.

The MOF arranges the specific issuance plan of government bonds.

Through efforts in recent years, the exchanges have become an important channel for government bond issuance on a larger scale and variety, covering short-, medium-, and long-term tenors (e.g., 1-year, 2-year, and 30-year issues, respectively). Through the process of underwriting, market-based inquiries and issuance have made the fundamentals more objectively reflected and improved market-driven pricing. Moreover, the investor base is now more diversified.

b. Issuance of Local Government Bonds

Previously, local government bonds were issued by tender or as a target issue. However, local government bonds issued with a target issuance method cannot be listed on the exchanges. In 2018, the MOF decided to implement a system of public underwriting of local government bonds by issuing the Regulations on the Public Offering and Issuance of Local Government Bonds (地方政府债券公开承销发行业务规程).

The public underwriting of local government bonds refers to the fact that after the finance departments of the provinces, autonomous regions, municipalities directly under the central government, and cities with separate issuance plans negotiate with the lead underwriter to determine the interest rate (price) corridor, the book-building administrator organizes the members of the underwriting group to send the subscription interest rate (price) and the desired quantity. The final issue rate (price) is determined and the placement is carried out according to predetermined pricing and placing rules.

The new procedure clarifies that local government bonds are publicly underwritten through either the MOF's government bond issuance system, the MOF’s government bond issuance system at the SSE, or the MOF’s government bond issuance system at the SZSE. The public underwriting of local government bonds shall follow the principles of openness, fairness, and impartiality, and strictly abide by the relevant provisions on the issuance and management of local government bonds.

The new procedure stipulates that local finance departments can set up underwriting syndicates for publicly underwritten local government bonds, or they can conduct open tendering for an underwriting syndicate. In principle, there cannot be fewer than four members of the underwriting syndicate. The book-building manager is the lead underwriter entrusted by the local finance department and responsible for the operation of the local government bond public underwriting process.

Members of the underwriting syndicate can make purchases for their own books or register purchases from investors on their behalf, and the members of the underwriting syndicate cannot substitute for one another. In principle, book-building managers are not allowed to participate in public underwriting competitive subscriptions. The local finance department shall agree with the members of the underwriting syndicate to determine a reasonable issuance fee standard and may set different fee standards for the book-building administrator and other members of the underwriting syndicate.

The new regulation also clarified the public underwriting process and the open underwriting site management. According to the new procedure, public underwriting will be based on the principle of low-interest-rate or high-price priority, and purchases or subscriptions will be sought until the planned issuance amount is achieved or all valid subscriptions are completed. The personnel at the issuance site shall not disclose information such as the purchase amount or the subscription interest rate during the issuance of local government bonds, since this could affect the fair and equitable distribution of local government bonds.

c. Issuance of Local Enterprise Bonds

When issuing local enterprise bonds, also referred to as municipal corporate bonds（城投债）, local enterprises must submit the enterprise bond declaration materials directly to the provincial development and reform departments. The provincial development and reform departments will transfer those materials to NDRC within 5 working days of receipt. The review and approval procedure will be completed within 30 working days (or within 60 working days under more complex circumstances) from the date the bond declaration materials are received by NDRC.[37]

2. Issuance Types for Corporate Bonds

Based on the recent introduction of the relevant measures, the exchange bond market features three types of corporate bond issuances: (i) public offering (公开发行）to general (public) investors, including individuals (大公募公司债）; (ii) public offering (公开发行）to Qualified Investors (合格投资者）only (小公募公司债）; and (iii) non-public placement (非公开发行）(limited to Qualified Investors with a maximum of 200 bondholders). Please also see the relevant sections elsewhere in this bond market guide for the individual features of the different issuance types.

[37] Information provided by the Zhong Lun Law Firm.

A non-public placement of bonds refers to a private placement to Qualified Investors; non-publicly placed corporate bonds are limited to a transfer between Qualified Investors only. SME private placement bonds have the same restriction and for each issue the number of bondholders cannot exceed 200.

In the past, the placement of up to 200 allocations to any type of investor was possible under non-public or private placements. However, since the introduction of the 2015 measures, the concept of private placement to 200 investors no longer applies. Instead, according to Article 26 of the 2015 measures, non-publicly placed corporate bonds shall only be issued to Qualified Investors; shall not be subject to advertising, public inducement, or disguised disclosure; and shall not exceed 200 persons per issue. Furthermore, according to Article 31 of the 2015 measures, non-publicly placed corporate bonds may only be transferred among Qualified Investors (合格投资者). After any transfer, the total number of Qualified Investors holding the same bond issue shall not exceed 200.

The 2015 measures also stipulate an underwriter's responsibility for sale and transfer restrictions to general and retail investors in order to ensure that transfers occur only to Qualified Investors and that the number of bondholders is limited to 200.

3. Steps Taken by an Issuer before Issuance

The issuance of corporate bonds by private companies and any issuance of enterprise bonds by an SOE will need to go through a process specific to the nature of the entity before they may issue bonds. The 2015 measures referred to in this section apply to all corporate legal persons, and there is no distinction between SOEs and non-SOEs in the issuance procedure.

a. Issuance of Corporate Bonds

When a joint stock company or a limited liability company proposes to issue corporate bonds, its board of directors shall draft a plan for approval by the meeting of shareholders.

Under the Company Law and a company's articles of association, the issuer will need to produce a resolution, either through the shareholders meeting, or under the powers granted to management, on the following matters relating to the issue of debt securities:

i. issue amount,
ii. distribution method,
iii. maturity,
iv. use of proceeds,
v. validity of the resolution, and
vi. other matters that may be needed.

After the meeting resolution or corresponding management decision, the company shall apply to CSRC for approval in the case of a public offering. All directors, supervisors, and senior management of the issuer must sign the bond prospectus for the purpose of ensuring that no false record, misleading statement, or material omissions have occurred, thus bearing the corresponding legal liabilities.[38]

[38] The bond prospectus will be effective for 6 months from the date of signature.

The criteria for a company to be able to issue corporate bonds to public investors via a public offering include the following:

i. no debt default nor delay in the payment on principal and interest in the last 3 years,
ii. the average distributable profits of the issuer in the last 3 years is not less than 1.5 times the 1-year aggregated coupon payments,
iii. a credit rating of AAA on the domestic credit rating scale, and
iv. other conditions that CSRC may stipulate.

Corporate bonds that cannot meet the above conditions should be issued via a public offering to Qualified Investors only for which CSRC has simplified the approval procedure.

The issuer must prepare and submit the application documents for publicly offered corporate bonds in accordance with the relevant provisions of CSRC for the contents and format of information disclosure.[39] Please see Chapter II.F for details on the issuance application and approval process for debt securities in the exchange bond market.

The issuer can apply for a series of issuances by installment for approved corporate bonds to be issued via a public offering.[40] In such cases, the issuer has to complete the first issuance within 12 months from the date of CSRC approval and the remaining amount should be issued within 24 months.

b. Issuance of Enterprise Bonds

Enterprise bonds are subject to approval by NDRC. The corporate bond management regulations issued by CSRC do not distinguish between SOEs and non-SOEs in the issuance procedure.

When a wholly state-owned company proposes to issue enterprise bonds, those bonds are regulated by NDRC, the PBOC, and CSRC. The issuing decision is subject to the investment organization or relevant regulatory authority and NDRC registration, while CSRC approval is necessary as well.

Once the resolution or decision is made through the process described in section A of the regulations, the company shall apply for approval from CSRC. CSRC will grant approval subject to the provisions of the Company Law. Please see Chapter II.F for the actual issuance application and approval process for debt securities.

The maximum size of an enterprise bond issue by a state-owned company is determined by the State Council. To obtain an approval from CSRC to issue corporate bonds, the company must ensure that the issue size does not exceed that set by the State Council.

To issue enterprise bonds, an SOE must

i. meet the government requirements,
ii. have financial and accounting systems in compliance with government provisions,
iii. be capable of debt repayment,

[39] The requirements for the public issuance of corporate bonds are stipulated in Article 16A of the Securities Law.
[40] The issuer has to release an updated bond prospectus at each issuance in a timely manner and report to CSRC within 5 working days from each issuance installment.

iv. enjoy sound economic performance and be profitable for the 3 consecutive years preceding the proposed issuance of enterprise bonds,
v. use the bond proceeds for purposes in line with government industry policies,
vi. not issue enterprise bonds at total par value that exceeds the net value of its proprietary assets, and
vii. not issue enterprise bonds with coupon rates higher than 40% of the interest rates of personal fixed deposits of banks during the corresponding period.

The Rules for the Compilation of Legal Opinions on the Issuance of Corporate Bonds ruled that the legal firm engaged by the issuer must clearly express conclusive opinions on certain matters concerning the issuance of enterprise bonds, including but not limited to the following:

i. approval and authorization of the issuance;
ii. subject qualification of the issuer;
iii. substantive conditions of the issuance;
iv. issuer's establishment and shareholders (actual controller);
v. independence of the issuer;
vi. issuer's business and credit standing;
vii. related-party transactions and horizontal competition;
viii. main property(ies) of the issuer;
ix. major credits, rights, and liabilities of the issuer;
x. drastic changes in the property(ies) of the issuer;
xi. tax situation of the issuer;
xii. environmental protection of the issuer;
xiii. use of the proceeds raised by the issuer;
xiv. litigation, arbitration, and administrative punishment of the issuer;
xv. evaluation of the legal risk of the prospectus; and
xvi. any other matters the legal firm thinks should be explained.

The legal firm should clearly state in its overall opinion whether the issuer satisfies the publishing requirements of the enterprise bonds, whether the actions of the issuer violate any laws or regulations, and whether the prospectus, and the content of the legal opinion cited in its notes, are adequate.

An enterprise that issues enterprise bonds can apply to a recognized bond rating agency for a credit rating. An enterprise must also engage a securities company to underwrite the issuance of enterprise bonds. Institutions that are not securities companies and individuals cannot underwrite and/or transfer enterprise bonds.

4. Public Offering

According to Article 33 of the 2015 measures, the issuance of corporate bonds shall be underwritten by a securities company with securities underwriting business qualifications. Underwriting shall be on an agency basis or on a sole agency basis (see also the separate section on underwriting).

The securities company shall examine the truthfulness, accuracy, and completeness of the public offering documents. If it finds any falsehoods, misleading statements, or major omissions in such documents, it shall not carry out the sales activities. If it has already begun to sell the securities, it shall immediately discontinue the sales activities and adopt remedial measures.

Corporate bonds may not be issued through a public offering if the issuing company has met any of the following conditions:

i. false record in financial and accounting disclosure in the last 36 months;
ii. any illegal act for the last 36 months;
iii. incorrect records, misleading statements, or material omissions in the new application form;
iv. default or delay in payment of principal and/or coupon on existing debt that has not been settled; or
v. other situations that seriously damage legitimate rights and interests of investors and the public interest of society.

5. Non-Public (Private) Placement

Non-public placement, non-public offering, or non-public issuance (非公开发行) is the term used in regulations and rules for a private placement. A non-public placement of corporate bonds can only be made to Qualified Investors. The solicitation of non-publicly placed corporate bonds shall involve no more than 200 Qualified Investors. As a consequence, public advertisements, open publications, seminars, sales campaigns, and road shows may not be used. Under the regulations, the issuer has no obligation to obtain a credit rating or disclose its credit rating as part of the market-typical disclosure in the bond prospectus.[41]

Corporate bonds issued via a non-public placement are also eligible for a listing on the exchange. However, the total outstanding number of Qualified Investors who hold the non-publicly placed bonds should not exceed 200 at any time during the tenor of the bonds. At the same time, the issuer's directors, supervisors, senior management, and shareholders who hold more than 5% of the company's capital can participate in the subscription. The trading of non-publicly placed bonds of the company need not be considered under the limit of 200 Qualified Investors since they may not outright qualify as Qualified Investors themselves.[42]

Securities companies that are eligible to perform securities underwriting and other organizations approved by CSRC may sell non-publicly placed corporate bonds by themselves.

Non-public (private) placement bonds can only be traded on the exchanges' negotiation (block) trading system, not on the exchanges' centralized trading system; only publicly offered bonds can use the quote-driven trading method.

6. Issuance via Underwriting

According to Article 33 of the 2015 measures, the issuance of corporate bonds shall be underwritten by a securities company with securities underwriting business qualifications.

According to Article 35, corporate bond underwriting can be carried out as fully hard underwritten (also referred to as full commitment), represent a residual (or standby) underwriting commitment, or be done on a best-effort basis.

[41] According to Article 28 of the 2015 measures, a non-public placement of corporate bonds may not be credit rated.
[42] According to Article 32 of the 2015 measures, the directors, supervisors, senior executives, and shareholders holding more than 5% of the shares of the issuer may participate in the non-public placement of corporate bonds of the company. The subscription and transfer are not subject to the restrictions on the qualifications of Qualified Investors in Article 14 of the present measures.

Securities companies that are eligible for securities underwriting business and other organizations approved by CSRC can sell non-publicly placed corporate bonds by themselves. The 2015 measures stipulate an underwriter’s responsibility for the stated sales and transfer restrictions to general and retail investors and to ensure a transfer only to Qualified Investors, and to limit the number of bondholders to no more than 200.

Debt securities to be offered to the public with a total face value exceeding CNY50 million shall be underwritten by an underwriting syndicate composed of a securities company acting as the lead underwriter and securities companies acting as underwriters.

a. Underwriting Agreement

To underwrite securities, the securities company shall enter into an agreement with the issuer for the services of underwriting as an agent or as a sole agent. Such an agreement shall include the following information:

i. names and domiciles of the parties and names of their legal representatives;
ii. type, quantity, amount, and issuing price of the securities to be underwritten on an agency basis or a sole agency basis;
iii. period during which securities are issued on an agency basis or a sole agency basis, including the commencement and termination dates of the period;
iv. means and date of payment of the proceeds from sale on an agency basis or a sole agency basis;
v. fees for sale on an agency basis or a sole agency basis and the means of settlement thereof;
vi. liability for breach of contract; and
vii. other matters prescribed by the securities regulatory authority under the State Council.

b. Underwriting Period

The maximum period for underwriting securities on an agency basis or a sole agency basis shall be 90 days. During the period for securities underwritten on an agency basis or a sole agency basis, securities companies shall ensure that such securities are first sold to primary subscribers. Securities companies may not reserve, in advance, for themselves securities that they underwrite as agents, or purchase, in advance, and retain securities that they underwrite as sole agents.

F. Governing Law and Jurisdiction (Bond Issuance)

The governing law and jurisdiction for a bond issuance is of significance since potential issuers may consider issuing under the laws or jurisdiction of a country or market other than the place of issuance. The choice of governing law or contractual preferences of stakeholders may affect the accessibility to a specific investor universe that may otherwise not be accessible if a bond were issued under the laws of the place of issuance.

At present, the governing law and the jurisdiction for bond issuances within the territory of the PRC are limited to the laws of the PRC and its jurisdiction.

G. Language of Documentation and Disclosure Items

It is envisaged that most ASEAN+3 markets participating in the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) will be able to accept the use of a common document in English. However, some markets may require the submission of approval-related information in their prescribed format and in the local language. In such cases, concessions from these regulatory authorities for a submission of required information in English, in addition to local language and formats, may be sought.

In the PRC bond market overall, documentation and disclosure items used for the approval of bond issuances will need to be in Chinese.

CSRC is in the process of formulating relevant regulations on the issuance of CNY-denominated Panda bonds by foreign institutions in the exchange bond market. The provision will clarify the language requirements for the application documents submitted by foreign institutions in the exchange bond market.

According to this proposed regulation, documents disclosed by overseas institutions should be in simplified Chinese (compulsory) or may also be provided in English. However, English documents will not be considered a full application and, hence, are for reference only. The Chinese version shall prevail in case of a discrepancy between the Chinese version and the English version.

For further details on Panda bonds and their underlying provisions, please also see section B.7 in this chapter.

H. Registration of Debt Securities in the Exchange Bond Market

The registration of corporate bonds issued in the exchange bond market is handled by CSDC for bonds issued both via a public offering or a non-public placement (private placement). As the central securities depository for the exchange market, CSDC provides centralized registration and depository services for bonds listed and traded on the exchanges. Bonds are safekept on a dematerialized basis through an electronic book-entry system. CSDC also provides cross-market custody transfer services, including custody transfer for the listing of enterprise bonds and cross-market custody transfer of Treasury bonds and local government bonds.[43] There is no transfer service between CSDC and the commercial banks' counter market.

1. Securities Registration and Depository System

CSDC operates the centralized securities registration and secondary depository system of the exchange bond market. CSDC serves as the central securities depository of the exchange bond market. Its Shanghai branch connects with the SSE and provides post-trade services, and its Shenzhen branch connects with the SZSE and provides the same such services, both using the same bond account system. All bonds in the exchange bond market are registered at CSDC, with all transfers recorded in its ledger.

CSDC adopts a securities registration and depository model in which most of the bonds issued in the exchange bond market are directly registered in the securities accounts of beneficial owners. Under such a system, bonds held by investors are directly registered under their own names in the register of bondholders. If permitted by law, administrative regulations, or CSRC, the bonds may also be registered in the

[43] Cross-market transfer refers to the transfer of debt securities for trading between the two major market segments of the PRC bond market: the CIBM and the exchange bond market.

securities account of their nominees. CSDC has the right to require nominees to provide relevant information on beneficial owners on whose behalf they act.

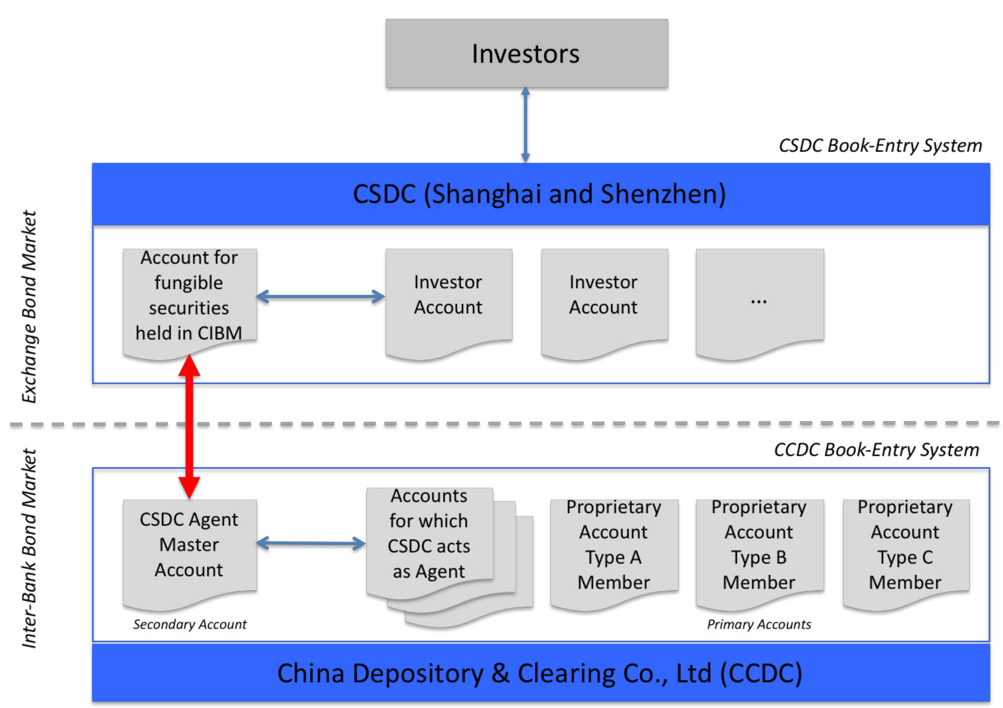
A domestic investor participating in trading activities on a stock exchange appoints a securities company as its custodian (pursuant to Article 34 of the Measures for the Administration of Securities Registration and Settlement) and may only participate in trading activities through a securities company.

An investor can appoint multiple dedicated brokers on SZSE. In CSDC, there is a limit of three accounts for the individual and nonfinancial institutional investor categories. Exceptions exist for certain financial institutions and selected products. In the exchange bond market, QFIIs have to appoint one custodian and may appoint one to three dedicated broker(s) for all their securities transactions; QFIIs may open up to three depository accounts, in line with the maximum number of dedicated brokers.

Should the investor appoint a securities company as custodian, the securities company is entrusted to take custody of the investor's debt securities. CSDC is responsible for the depository of both the securities company's proprietary assets and the debt securities in the name of the underlying investors. CSDC sets up general ledgers for the securities companies and their clients in order to maintain distinct lists for the companies' proprietary securities and the clients' securities separately. In addition, securities issuers entrust CSDC to carry out the registration of their issued debt securities.

2. Cross-Market Transfers

Figure 3.2: Account Linkage between CCDC and CSDC

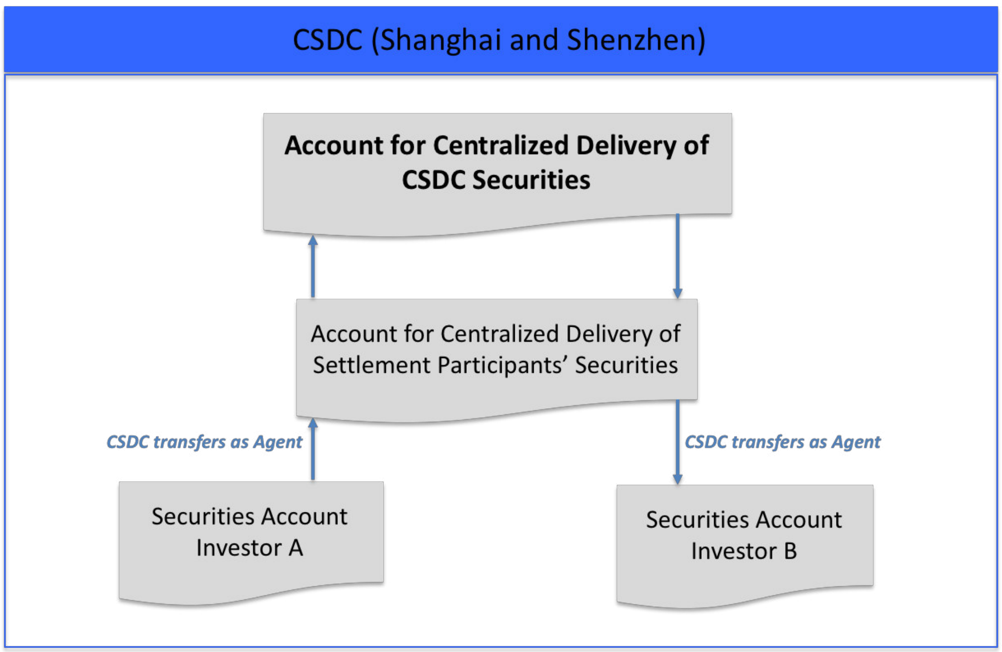


CIBM = China Inter-Bank Bond Market; CSDC = China Securities Depository and Clearing Co., Ltd.
Source: CCDC. 2016. *China Bond Market Overview 2016*. Beijing.

In order to facilitate cross-market transfers between the exchange bond market and the CIBM, CSDC, as the settlement institution of the exchanges, maintains a general bond account in CCDC (Figure 3.2). In turn, investors open bond accounts with CSDC, including for their holdings that are fungible between the exchange bond market and the CIBM.

CSDC opens an agent master account in CCDC to handle the centralized delivery or receipt of bonds to or from the CIBM. The CSDC settlement participants (i.e., securities companies and other institutions) are thus able to directly participate in the bond and cash settlement and delivery organized by CSDC and can enjoy finality of delivery (or receipt) for transactions in the CIBM within the electronic securities registration and settlement system managed by CSDC (Figure 3,3).

Figure 3.3: Bond Account System of the Exchange Bond Market



CSDC = China Securities Depository and Clearing Co., Ltd.
Source: CCDC. 2016. *China Bond Market Overview 2016*. Beijing.

3. Securities Registration

CSDC's registration services are classified into the initial securities registration, transfer registration, securities registration deletion, as well as other services related to securities registration depending on the stage during the tenor of a bond or note. The initial securities registration refers to the registration of bonds upon issuance. Transfer registration is the registration of a bond in participant accounts as a result of a transfer and any other changes applicable. If the rights of a bondholder are restricted due to reasons such as the bonds being pledged or frozen, CSDC will indicate such a caveat for the corresponding amount of debt securities in the register of bondholders. For bonds that are delisted from the exchange, CSDC will proceed to delete securities from the issuer registry.

During the application for initial securities registration, issuers will need to sign a securities registration and service agreement with CSDC, which is required to be submitted during the listing application to the exchange as evidence of the securities registration.

4. Integrated Securities Registration and Listing Applications

The SSE and SZSE, and the respective branches of CSDC, jointly provide a one-stop electronic delivery service for corporate bond listing and securities registration application materials. Market participants refer to it as the integrated securities registration and listing process since it covers the applications for issuance, listing, trading, and transfer.

Both the SSE and SZSE accept application documents for issuance and listing electronically, via a designated portal, and the issuer or underwriter need to use a unique key to access it. The issuer or its underwriter(s) and scheme manager(s) (in the case of ABS) shall submit the electronic bond securities registration and electronic listing application and their respective supporting documents to the SSE through the New Bond Business Management System and to the SZSE via the Fixed Income Business System.

The issuer or its underwriter(s) and scheme manager(s) shall submit the application materials in a timely manner.

I. Listing of Debt Securities

Debt securities issued in the exchange bond market listed and traded on the SSE or SZSE, depending on an issuer’s choice or the focus of a particular exchange market segment.

Table 3.3: Number of Bonds Listed on the Shanghai Stock Exchange

Bond Type (债券现货)	Number of Bonds Listed				
	2014	2015	2016	2017	2018
Treasury bonds (国债)	170	186	183	191	200
Local government bonds (地方政府债)	97	707	1,437	2,259	2,877
Policy financial bonds, insurance company bonds, securities company bonds (政策性金融债,保险公司债,证券公司债)	3	3	2	4	19
Enterprise bonds (企业债)	1,536	1,758	2,168	2,331	2,108
Corporate bonds (公司债券) total	741	1,393	2,922	3,663	4,506
Publicly offered corporate bonds	333	1,375	1,355	1,678	2,158
Non-publicly placed corporate bonds	407	–	1,540	1,922	2,283
Exchangeable corporate bonds	1	–	27	63	65
Convertible bonds (可转换公司债)	20	3	9	18	50
Detachable convertible bonds (分离式可转债)	2	1	–	–	–
Asset-backed securities (资产支持证券)	34	438	1,356	1,920	2,329
Total	**2,603**	**4,489**	**8,077**	**10,386**	**12,089**

Notes: All figures are year-end totals. In 2015, 18 “other securities” are included in the corporate bonds number.
Source: Shanghai Stock Exchange (SSE). 2016. *SSE Fact Book 2016*. Shanghai; SSE website.

The number of debt securities listed on the SSE has steadily increased in recent years across most instrument types. In fact, the number of listed debt securities on the SSE has increased by more than 460% over the past 5 years (Table 3.3). Particularly strong growth was seen in the listing of corporate bonds, local government bonds, and ABS.

Similarly, the listing of debt securities on the SZSE also shows an overall increasing trend in the same period (Table 3.4), driven mainly by new listings of both government and corporate bonds. The value of listed debt securities on the SZSE also increased strongly, particularly in the 3 years after the introduction of the 2015 measures.[44]

Table 3.4: Number of Bonds Listed on the Shenzhen Stock Exchange

Bond Type (债券现货)	Number of Bonds Listed				
	2014	2015	2016	2017	2018
Treasury bonds (国债)[a] Local government bonds (地方政府债) Government support bonds (政府支持债券)	267	893	1,620	2,452	200 2,877 8
Policy financial bonds (政策性金融债), Securities companies subordinated bonds (证券公司次级债) Securities companies short-term notes (证券公司短期债)					5 44 15
Enterprise bonds (企业债)	30	25	15	9	12
Corporate bonds (公司债券) total[a]	211	251	405	482	1,344
Publicly offered corporate bonds Non-publicly placed corporate bonds Exchangeable corporate bonds Non-publicly placed exchangeable corporate bonds					578 690 1 75
Convertible bonds (可转换公司债) Innovative and entrepreneurial convertible bonds (创新创业可转换债券)	10 –	1 –	8 –	19 –	61 2
Asset-backed securities (资产支持证券)	–	–	–	–	336
Total	**518**	**1,170**	**2,048**	**2,962**	**4,904**

[a] Prior to 2018, the Shenzhen Stock Exchange (SZSE) did not differentiate between central and local government bond listing numbers; prior to 2017, the SZSE did not break down corporate bond listing numbers into the above categories.
Source: SZSE. 2016. *SZSE Fact Book 2016*. Shenzhen; SZSE website.

The listing process is principally divided into the determination of the issuance and listing eligibility of the issuer and the bonds to be issued, and the listing process itself. In the cases of an application for the listing of corporate bonds that are issued publicly to Qualified Investors only, or of bonds to be issued via a non-public placement, the issuer shall submit a listing pre-qualification application and relevant documents to the exchange prior to the issuance. The exchange will review the qualification of the issuer for issuing and listing corporate bonds and issue its opinion, either to CSRC (in the event of public offers to Qualified Investors) or directly to the issuer in the form of a no-objection letter, which is formally known as a Notice on Acceptance of Issuance. In the case of a public offer to all investors, CSRC will take upon itself the determination of

[44] CSRC. 2015. Measures for the Administration of Corporate Bond Offering and Trading (公司债券发行与交易管理办法). Beijing.

the listing eligibility of issuer and bonds as part of its examination process of the issuer's issuance application.

The determination of the issuance and listing eligibility are considered the key regulatory processes for bond issuance in the exchange bond market and, hence, are described in Chapter II.F. The listing application and approval processes for debt securities issued via public offering and non-public (private) placement are described in detail through the following sections.

Both exchanges and the respective branches of CSDC jointly provide one-stop electronic delivery services for corporate bond listing and registration applications and their supporting documentation. The issuer or its underwriter(s) and scheme manager(s) shall submit the electronic bond registration application and the listing application together with the supporting documents in electronic form to the SSE through the New Bond Business Management System and to the SZSE via the Fixed Income Business System.

1. Listing Requirements

Given the unified guidance practiced by CSRC, the listing requirements and processes are as good as the same for both SSE and SZSE. However, the listing requirements and practices for individual types of debt securities may differ (see below).

In 2018, both the SSE and SZSE revised their corporate bond listing rules and published the revised versions, respectively, as the Rules on Listing and Transfer for Corporate Bonds on 7 December 2018.[45]

a. For Government Bonds and Local Government Bonds

Pursuant to Article 48 of the Securities Law (amended in 2014), stock exchanges shall arrange for the listing and trading of government bonds in accordance with the decision(s) of the department authorized by the State Council. The overall issuance plan, issuance rules, and specific issuance work arrangements of national debt issuance (including the relevant requirements for the listing of such debt securities) are all prescribed by the MOF. The issuance plans and issuance rules for local bonds are formulated by the provinces, autonomous regions, municipalities, or cities with separate issuance ability.

b. For Enterprise Bonds

In accordance with the provisions of the corporate bond listing rules of the stock exchanges, the listing and trading of enterprise bonds, as well as other bonds approved by CSRC, and bonds issued by overseas registered companies (i.e., Panda bonds) shall be governed, mutatis mutandis, by the listing rules for corporate bonds.

c. For Corporate Bonds

In its Measures for Corporate Bond Issuance and Transaction Management, 2015, the CSRC prescribes that corporate bonds issued via a public offering shall be listed and traded on the securities exchanges.

[45] As an example, the revised version of the SSE rules was officially published as the Shanghai Stock Exchange Non-Public Placement of Corporate Bonds Listing Rules. The rules are available on the SSE website at http://www.sse.com.cn/lawandrules/sserules/trading/bond/c/c_20181207_4689322.shtml.

To list its corporate bonds on a stock exchange, an issuer of corporate bonds to be offered to the public shall meet the requirements in Article 57 of the Securities Law, such as

i. the tenor of the corporate bonds is not less than 1 year;
ii. the amount of corporate bonds to be actually issued is not less than CNY50 million; and
iii. the issuer still meets the statutory conditions for the issuing of corporate bonds at the time of application for the listing of its bonds.

An issuer who applies to a stock exchange for listing of its corporate bonds shall also meet the requirements stipulated in the listing rules of the respective exchange. Both the SSE and SZSE prescribe in Section 2.1.1 of their Listing Rules that an issuer will need to:[46]

i. meet the requirements for listing of bonds specified in the Securities Law;
ii. have completed the public offering of its bonds in accordance with the law upon the approval of the competent authorities;
iii. meet the statutory requirements for public offering of bonds when applying for listing of its bonds;
iv. ensure that its bondholders observe the investor suitability management rules of the exchanges; and
v. satisfy other requirements as may be imposed by the exchange.

At the same time, the exchanges reserve the right to adjust requirements for the listing of bonds according to prevailing market conditions.

d. For Corporate Bonds Issued via a Non-Public (Private) Placement

Under the Interim Measures of the Shanghai Stock Exchange for the Administration of Non-Public Placement of Corporate Bonds, or the corresponding rules of the SZSE, an issuer who applies to an exchange for the listing and trading of its non-publicly placed bonds shall:[47]

i. comply with relevant provisions of the Measures for the Administration of Corporate Bond Offering and Trading and other laws and regulations;[48]
ii. have completed the non-public placement of the bonds in accordance with the law;
iii. still meet the requirements for offering of bonds when applying for the listing and trading of the bonds;
iv. ensure that its bondholders observe the investor suitability management rules of the exchange and there are no more than 200 bondholders in total; and
v. meet other requirements as imposed by the exchange.

The exchanges may at their discretion adjust the bond listing requirements based on market conditions.

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[46] SSE. 2018. SSE Corporate Bonds Listing Rules（上海证券交易所企业债券上市规则）(2018 年修订) http://www.sse.com.cn/lawandrules/sserules/listing/bond/c/c_20181207_4689321.shtml.
[47] SZSE. 2018. Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules (深圳证券交易所非公开发行公司债券挂牌转让规则). Shenzhen.
[48] CSRC. 2015. Measures for the Administration of Corporate Bond Offering and Trading (公司债券发行与交易管理办法). Beijing.

2. Listing Process for Corporate Bonds Issued via Public Offering

This section details the listing process for corporate bonds that are issued via a public offering. While issuers and to-be-listed debt securities may differ, the process is fundamentally the same for the SSE and SZSE.

To be able to apply for a listing of bonds issued via a public offer to public (general) investors, the issuer must obtain approval from CSRC after examination of its issuance application; the determination of eligibility for listing is an integral part of the CSRC examination process. The examination and issuance approval process is explained in detail in Chapter II.F.3.

For public offers to Qualified Investors only, the issuer must receive a formal approval letter from CSRC based on the review of the issuance and listing eligibility of the issuer and bonds by the exchange on which the issuer aims to list its bonds. For more details on this process, please see Chapter II.F.4.

The typical timeframe from listing application to actual listing on the exchange is 5 working days on either side of the bond issuance (i.e., 5 working days for the listing application review before issuance and 5 days for the listing preparations after the bond issuance is complete).

Step 1—Application for Listing to the Exchange

An issuer or its underwriter(s) will need to submit the listing application and supporting documents at least 5 business days before the targeted issuance date.

If the issuer had previously applied for a listing and received approval, but decided not to issue immediately, the issuer is required to submit the updated (newest) supporting documents through the exchange's electronic system at least 5 business days before the targeted issuance date. The exchange will need to review the information disclosure documents again for any significant changes to the information disclosed in the initial application.

An issuer applying for a bond listing or its underwriter(s) shall submit the following documents to the exchange in a timely manner, in support of the listing application:

i. documents from the competent authority approving the bond issuance;
ii. bond prospectus;
iii. summary of bond prospectus;
iv. (draft) issuance announcement;
v. (draft) listing announcement;
vi. credit rating report(s);
vii. guarantee letter(s) or guarantee agreement(s), if any
viii. a commitment letter on any subsequent material events after the approval;
ix. a commitment letter on corporate bond issuance and tenor, registration, and listing matters;
x. an application for extension of financial reporting period(s), if any; and
xi. other documents as requested by the exchange.

Issuers also need to provide to the exchange the securities registration and service agreement signed with CSDC, as evidence of securities registration.

A draft listing announcement (see item v. above) is one of the required supporting documents for the listing application. The formal listing announcement will be released 1 day before the date of the actual listing. Listing application and supporting documents, as well as depository registration documents directed to CSDC, may be submitted in electronic form.

If the issuer is a listed company, it may be exempted from submitting items v. and vi. If bonds are issued in tranches, the issuer only needs to submit the updated application documents for each new tranche.

The issuer and relevant personnel shall ensure that the contents of documents submitted to the exchange are authentic, accurate, and complete, and that they contain no falsehoods, misleading statements, or material omissions. The issuer will also ensure that the electronic copies, faxed copies, and photocopies submitted are in conformity with the originals.

Step 2—Review and Listing Approval from the Exchange

After receiving the listing application, the exchange will review the bond listing application and make a decision on whether to approve the bond listing application within five working days. If the listing is approved, the issuer shall sign a listing agreement with the exchange prior to listing, which shall specify the rights and obligations of both parties and relevant matters.

Once the exchange reviews the documents and approves the listing, the exchange will assign the issuer a bond symbol and bond issuance code, which is required to enter the issuance results once the issuance process is complete (see also next step).

After the listing approval but before the actual listing, the issuer shall disclose its bond prospectus, listing announcement, and other relevant documents on the exchange website and make the listing announcement, approval document, and other listing application documents available in designated places for public inspection. Pursuant to the exchange listing rules, the issuer needs to make the listing announcement to the public 2 days before the actual listing date (see also below).

Step 3—Issuance of Bonds

Once the necessary issuance and listing approvals have been obtained, the issuer will issue the bonds on the issuance date. After the completion of the book-building process, the underwriter(s) needs to enter the book-building results into the exchange’s electronic system, using the issuance code assigned by the exchange upon listing approval (see previous step). This information will be automatically transferred to CSDC.

Step 4—Actual (Effective) Listing

The issuer can only carry out the listing announcement after submitting the issuance results to the exchange by inputting the results in the electronic system using the issuance code (see previous step).

If an issuer were to make the listing announcement on the day of issuance, and enter the issuance results on the same day, the normative actual listing date could be as early as 2 days later. In practice, the average time to actual listing for a public offer is about 5 business days after the issuance date.

The listing and trading rules of the exchanges also stipulate that upon the occurrence of any material event during the period after the bonds have been issued but before the actual listing and trading of the bonds occurs, the bond issuer shall promptly report to the exchange any such material event.

3. Listing Process for Corporate Bonds Issued via Non-Public (Private) Placement (to Qualified Investors only)

Bonds issued via a non-public (private) placement to Qualified Investors only may also be listed and traded on the exchanges. The significant difference for a non-public placement in the exchange bond market is that the exchange to which the issuer will apply for listing carries out an official examination of the issuance application and supporting documentation under the authority delegated by CSRC, and issues its opinion on the issuance and listing eligibility. If found suitable, the exchange will issue a no-objection letter (无异议函), formally known as a Notice on Acceptance of Issuance, which is the prerequisite for the listing application described below. This process does not need approval from CSRC and is explained in detail in Chapter II.F.6.

Pursuant to Article 11 of the SSE and SZSE Non-Public Placement of Corporate Bonds Listing and Trading Rules, 2018, where the non-publicly (privately) placed corporate bonds are to be listed and traded on the exchange, the issuer shall submit the application for the listing and trading of the bonds and related documents to the exchange before the issuance of the bonds. The exchange shall review and confirm whether the bonds meet the listing conditions before issuing relevant opinions.

Details are explained in the following steps.

The usual timeframe from listing application to actual listing on the exchange is 5 working days on either side of the bond issuance (i.e., 5 working days for the listing application review before issuance and 5 days for the listing preparations after the bond issuance is complete).

Step 1—Application for Listing on the Exchange

The issuer or its underwriter(s) applies for a bond listing to the exchange on which the issuer has decided to list their bonds by submitting the following documents to the exchange in a timely manner. The underwriter shall assist the issuer in the application for bond listing and ensure that the bond listing meets the relevant regulations of the exchange:

i. the approval of the review process (no-objection letter) (批文);
ii. information memorandum (募集说明书);
iii. credit rating report(s) (信用评级报告), if any;
iv. guarantee letter(s) or guarantee agreement(s) (担保函、担保协议), if any;
v. a commitment letter on any subsequent material events after the approval;
vi. a commitment letter on corporate bond issuance and tenor, registration, and listing matters (公司债券发行登记上市及债券存续期相关业务的承诺函);
vii. an application for extension of financial reporting period(s), if any (财务报告延期申请); and
viii. other materials requested by the exchange (证券交易所要求的其他文件).

In practice, the issuer or underwriter may only need to submit supporting documents that reflect recent changes or to report on material events since the original approval from the exchange. Listed issuers will be exempt from item iii. above and all the other items for a listed company. The issuer shall submit the above materials to the exchange in a timely manner.

Listing application and supporting documents, as well as depository registration documents directed to CSDC, may be submitted in electronic form via the New Bond Business Management System (if listing on the SSE) or the Fixed Income Business System (if listing on the SZSE).

The bond information memorandum, which in some regulations is also referred to as a private placement memorandum, and other issuance documents shall meet the relevant regulations of the exchange.[49]

The issuer, professional institutions, and relevant personnel shall ensure that the contents of documents submitted or issued to the exchange are authentic, accurate, and complete, and that they contain no falsehoods, misleading statements, or material omissions. The issuer will also ensure that the electronic copies, faxed copies, and photocopies submitted are in conformity with the originals.

According to the provisions of Articles 11 and 12 of the SSE and SZSE Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, 2018, bonds that have been confirmed by the exchange to meet the listing conditions, or those which are issued in tranches, only require the submission of application materials in cases of updated contents instead of a new set of documents for every installment.

Step 2—Review and Listing Approval from the Exchange

After receiving the complete listing application and supporting documents, the exchange will examine the bond listing application and, within 5 working days, make a decision on whether the issuance complies with law and regulations and whether the debt securities are qualified to list on the exchange. A shorter review time (e.g., for a listed issuer) may also be possible.

If the exchange is satisfied with the application and approves the listing, it will update the status of the listing application in its system to “passed,” which will permit the issuer to issue and list non-public (private) placement bonds. No separate listing approval will be issued and the issuer or underwriter will need to monitor the exchange system to obtain the application result. If the listing is approved, the issuer shall sign a listing and transfer service agreement with the exchange prior to listing, which shall specify the rights and obligations of both parties and other relevant matters.[50] Once the exchange reviews the documents and approves the listing, the exchange will allocate to the issuer an issuance code, which is required to enter the issuance results once the issuance process is complete (see also next step).

Before listing, the issuer shall disclose its bond offering memorandum, issuance results announcement, and other relevant documents as set forth in Section 3.1(2) of the business management rules on the respective exchange’s website.

Upon the occurrence of any material event as enumerated in Section 4.9 of the business management rules during the period from the filing of the listing application to the listing of the bonds, the bond issuer shall report those to the exchange in a timely manner.

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[49] In the original Chinese version of regulations and rules, the same term (募集说明书) is typically used for the key disclosure document in any issuance application process; however, the actual term equivalent to practices in international bond markets differs in the context of the type of issuance. A prospectus is required for a public offering to general and public investors, and an offering circular or an offering memorandum is used for public offerings to Qualified Investors only, whereas for a non-public placement to Qualified Investors in the exchange bond market, a bond information memorandum or private placement memorandum is used.

[50] In principle, a transfer service agreement is the same as a listing agreement. Since private placement bonds can only be traded on the negotiated trading platform of the exchanges, not their centralized trading platform, the exchanges differentiate the Chinese terms into a transfer service agreement (for non-publicly [privately] placed bonds) and listing agreement (publicly offered bonds) to differentiate the two distinct trading mechanisms. The contents of the two agreements is the same.

Step 3—Bond Issuance

Once the listing is approved, the issuer will issue the bonds on the issuance date. After the completion of the book-building process, the underwriter(s) needs to enter the book-building results into the exchange's electronic system, using the issuance code assigned by the exchange upon listing approval (see previous step). This information will be automatically transferred to CSDC.

Step 4—Actual (Effective) Listing

The issuer can only carry out the listing announcement after submitting the issuance results to the exchange by inputting the results in the electronic system using the issuance code (see previous step).

If an issuer were to make the listing announcement on the day of issuance, and enter the issuance results on the same day, the normative actual listing date could be as early as 2 days later. In practice, the average time to actual listing for a non-public placement is about 5 business days after the issuance date.

The listing and trading rules of the exchanges also stipulate that upon the occurrence of any material event during the period after the bonds have been issued but before the actual listing and trading of the bonds occurs, the bond issuer shall promptly report to the exchange any such material event.

4. Listing Process for Asset-Backed Securities

Pursuant to the SSE and SZSE Business Guidelines for Asset Securitization, the application for the listing of ABS on the exchanges needs to establish the following:

i. the underlying asset complies with relevant laws and regulations, has a clearly-defined ownership structure, and can generate independent and predictable cash flows;
ii. the transaction of the ABS is well structured;
iii. the issuer has set up a special purpose vehicle (SPV) (专项计划) to issue the ABS and has completed the ABS filing procedures in accordance with relevant rules;
iv. the proposed investors for the ABS comply with the applicable investor suitability management rules of the exchange;
v. risk control measures adopted for the ABS comply with the requirements of the guidelines; and
vi. other requirements as may be imposed by the exchange.

In addition to the above, the other prerequisites for a listing application to the exchanges (see previous sections) will need to be in place.

Step 1—Application for Listing to Shanghai and Shenzhen Stock Exchanges

If the ABS are intended to be listed and traded on the SSE or SZSE, the issuer or its underwriter(s) and scheme manager(s) shall set up an SPV to issue the ABS and submit the relevant application documents to the SSE or SZSE in a timely manner before the issuance pursuant to relevant regulations, and the SSE or SZSE will decide whether the ABS listing eligibility criteria (mentioned above) are met.

ABS listing application and supporting documents, as well as depository registration documents directed to CSDC, may be submitted in electronic form via the New Bond Business Management System (if listing on the SSE) or the Fixed Income Business System (if listing on the SZSE).

According to the SSE and SZSE Business Guidelines for Asset Securitization, after the SPV has been set up, the scheme manager shall submit the documentation mentioned below when applying for the ABS to be listed and traded on the respective exchange. In principle, only documentation related to recent events or material changes for issuer or proposed ABS need to be submitted, including the following:

i. the approval of the review process (no-objection letter) (批文);
ii. a commitment letter on any subsequent material events after the approval (期后事项承诺函);
iii. the program explanatory brochure (ABS prospectus) (计划说明书);
iv. a due diligence report (尽职调查报告) related to changes;
v. a legal opinion (法律意见书) related to changes;
vi. any credit rating report(s) (信用评级报告);
vii. an application for extension of financial reporting period(s), if any (财务报告延期申请);
viii. project documents related to modifications, if any (涉及修改的其他项目文件); and
ix. other materials requested by the exchange (证券交易所要求的其他文件).

The underwriter(s) or scheme manager(s) shall ensure that the contents of documents submitted to the exchange are authentic, accurate, and complete, and that they contain no falsehoods, misleading statements, or material omissions. The issuer will also ensure that the electronic copies, faxed copies, and photocopies submitted are in conformity with the originals.

Step 2—Review and Listing Approval from the Exchange

After receiving the listing application, the exchange will check the completeness of the application documents and, within five working days, make its decision of approval or disapproval. If the listing is approved, the issuer shall sign a listing agreement with the exchange prior to listing, which shall specify the rights and obligations of both parties and other relevant matters.

If the submitted application and supporting documents are adequate and complete, the listing may principally be completed within 3 working days (SSE) or 5 working days (SZSE) after the completion of the issuance.

Step 3—Actual (Effective) Listing

Once the necessary issuance approvals have been obtained, and the debt securities have been issued, and the issuer reported the completion of the issuance process, the exchanges presently require 5 days lead-time to the effective listing date (unless the issuer requests a specific later listing date).

The listing and trading rules of the exchanges also stipulate that upon the occurrence of any material event during the period after the bonds have been issued but before the actual listing and trading of the bonds occurs, the bond issuer shall promptly report to the exchange any such material event.

J. Methods of Trading Bonds on Exchange (Secondary Market)

The methods of trading for bonds on the exchanges are governed by the Trading Rules of the SSE (Chapter IV, Section 2, Article 4.2.1) and the Trading Rules of the SZSE (Chapter IV, Section 1, Article 4.3.1).

After listing on an exchange (see previous section for details), bonds may be traded in the following manner:

i. **Free auctioning and brokered trades.** Trades are executed through the auction concept, using the principle of price priority and time preference. The call auction method is adopted during the opening quotation of a trading day, while the continuous auction method is used during the main daily trading session. See Chapter IV.D for details on the trading methods and sessions on the exchanges.

ii. **Block transactions.** Cash and repo trades for which the declared quantity of an individual trade on the SSE is no less than 1,000 or the involved amount is no less than CNY1 million, and those cash and repo trades for which the declared quantity of an individual trade on the SZSE is no less than 500 or the involved amount is no less than CNY500,000, are regarded as block trades.

    For block trades, trade by agreement or after-hour pricing is adopted, and the declaration of trades covers the intention declaration and trade-clinching declaration, which must be confirmed by the exchange. Upon the confirmation by the exchange, the seller and buyer shall not withdraw or change the trade-clinching declaration and must acknowledge the trade result and carry out the corresponding settlement and delivery obligations.

Pursuant to, for example, the SSE rules, corporate bonds publicly offered to public investors and Qualified Investors may be traded in the form of auction trades, quotation trades, price inquiry-based trades, and trades by agreement.[51]

Corporate bonds, which are publicly offered only to Qualified Investors and fail to meet the following criteria, may be traded in forms other than the auction method if the following criteria are met:

i. the bonds have a credit rating of AA or above;
ii. prior to listing the bonds, the issuer's net assets are no less than CNY500 million at the end of the latest fiscal period or its debt–asset ratio is no higher than 75% at the end of the latest fiscal period;
iii. prior to listing the bonds, the annual distributable profits of the issuer in the latest 3 financial years are no less than 1.5 times the annual accrued interest on the existing bonds; and
iv. other requirements as may be imposed by the SSE.

[51] According to Guidelines of the Shanghai Stock Exchange for Bond Market Investor Suitability, 2012 and Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange, 2015.

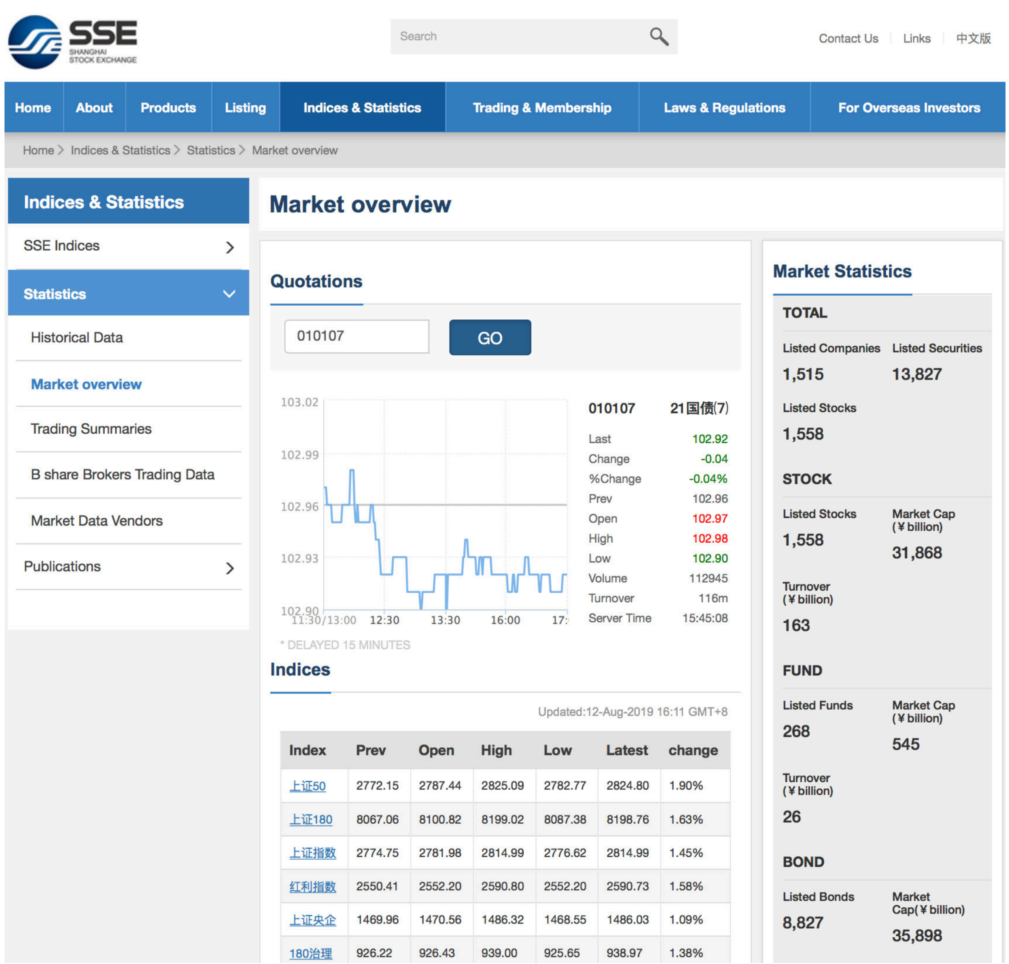
K. Bond Pricing

Due to the nature of the exchange bond market, the price or yield of debt securities is determined through executed trades or quotations from market participants. Prices are displayed on the access and information systems of the exchange platforms and simultaneously or subsequently distributed to participants, information vendors, and other third parties.

1. Shanghai Stock Exchange

The SSE publicizes firm quotation information and data on executed trades, including price and yield information (Figure 3.4). In the case of anonymous quotations, the SSE will only disclose the prices and volumes of quotations without naming the relevant dealers.

Figure 3.4: Bond Quotations on the Shanghai Stock Exchange Website



Source: Shanghai Stock Exchange. Market Overview. http://english.sse.com.cn/indices/statistics/market/.

In addition, SSE provides real-time level-1 market data, delayed level-1 market data, and real-time level-2 market data across all its trading products, including bonds, to licensed professional information vendors. In turn, the information vendors develop a wide range of products and deliver them to the market.[52]

For overseas subscribers, SSE historical data are also available from China Investment Information Ltd., an SSE subsidiary based in Hong Kong, China.[53] Interested parties may download a historical data order form, technical specifications, and sample data from its website. This service provision is chargeable.[54]

2. Shenzhen Stock Exchange

China Securities Index Co., Ltd. is exclusively authorized to manage and distribute securities information of SZSE. It provides SZSE level-1 and level-2 market data services for both domestic and overseas clients.[55]

Level-1 market data comprises security code, short name, high–low, open–close, last traded price, five best bid–ask prices, trading volume, trading value, and other data. It is available in the form of real-time data, delayed data, or end-of-day data:

i. Real-time data comprise market information on a real-time basis; SSIC provides market information of all securities listed on SZSE and other related information edited and collected by the exchange on a real-time basis.
ii. Delayed data are market information made available to clients on the basis of a 15-minute delay.
iii. End-of-day data are security code, short name, and closing price, high–low, outstanding share capital of A and B shares, and indices of the exchange are provided at the end of the trading day.

In terms of data content, level-2 market data not only includes level-1 market data contents, but also provides the 10-level order depth (prices and unit volume of orders in the 10 bid–ask queues), tick-by-tick trading and ordering information, plus the data contents of the spot trading version. In terms of interface specification, level-2 market data applies the FAST protocol based on the FIX standard. Moreover, level-2 data supports retransmission.

3. China Securities Index Co., Ltd.

Inaugurated on 25 August 2005 by the SSE and SZSE, CSI is a professional institution specializing in the creation and management of securities indexes and index-related derivative services. CSI was authorized by the SSE and will be authorized by the SZSE to maintain and market their respective indexes, including those for the exchange bond market.

Currently, as the owner and administrator of the CSI 300 Index, which is the most recognized index in the PRC and will become the underlying index of the soon-to-be Chinese Index Future, CSI has launched a series of other indexes such as size indexes, sector indexes, bond indexes, style indexes and some customized indexes. While CSI does not calculate bond prices (e.g. in the absence of trades), it uses prices provided by the exchanges to calculate its indexes.

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[52] For further information on level-1 and level-2 market data, please refer to http://english.sse.com.cn/products/information/realtime/.
[53] See www.ciis.com.hk.
[54] China Investment Information Services Ltd. Fee Schedule. http://www.ciis.com.hk/hongkong/en/uploadfiles/201809/11/2018091116131728116123.pdf.
[55] See http://www.szse.cn/main/en/Products/DataProducts/.

Please see Chapter IV for a comprehensive description of the bond indexes provided by CSI. Alternatively, more information on CSI and its products is available in the CSI information service handbook, which can be downloaded in English from the CSI website.[56]

L. Transfers of Interests in Bonds

As the central securities depository in the exchange bond market, all debt securities listed and traded on the exchanges will need to be registered (i.e., deposited upon issuance) in CSDC. CSDC maintains the central registration and depository system for the exchange (bond) market and will record all transfers of debt securities as a result of exchange transactions or other authorized transfers.

Investors in the exchange bond market, as well as securities companies and commercial banks acting for their own purposes, will need to maintain one or multiple securities accounts with CSDC. For an investor or other account holder to claim ownership of debt securities, these debt securities will need to be recorded in their account(s).

This section details the transfer of interests; that is, the ownership of debt securities from a number of perspectives.

1. Government Securities

In principle, there is no specific difference in the transfer of interests or ownership in government bonds from other debt securities. However, Treasury bonds and local government bonds may originally have been acquired by an investor in the CIBM with the intention to sell the same securities in the exchange bond market.

For that purpose, CSDC will execute a cross-market transfer, via its account with CCDC, and transfer said securities to the exchange bond market investor's account prior to these securities being deliverable for settlement of an exchange transaction or other authorized transfer. See also section H.1 in this chapter for more information on cross-market transfer and the account connection between CSDC and CCDC.

2. Non-Trade Transfers

Transfers at CSDC are generally the result of trades on the exchanges.
However, a transfer may also occur as a result of other underlying causes, such as a court order for transfer of assets, an inheritance, or other direction by the authorities. In such cases, CSDC will carry out the transfer in line with the legal documents presented.

3. Custodian Point of View

Custodians, also referred to as account agencies in regulations, can be either securities firms or commercial banks (in the case of servicing a QFII, see below). Custodians may only act to transfer debt securities from an investor account upon explicit instructions to do so. Anything underlying such instruction needs to be a trade in the exchange bond market or other authorized transfer.

Only securities companies can be custodians for domestic investors in the exchange bond market. On the other hand, commercial banks are typically acting as QFII custodians for investments in the exchange (bond) market by a QFII, since foreign

[56] See http://www.csindex.com.cn/uploads/services/data/files/en/data_service_en.pdf.

investors need to access the foreign exchange market to convert their foreign currencies into Chinese renminbi prior to investment. For domestic investors, the exchanges are encouraging them to use securities companies as custodians.

4. Finality of Transfer

CSDC carries out the transfer of debt securities upon instructions from the custodians or account agencies. The transfer occurs in the CSDC securities account ledger in its centralized book-entry system. Upon the transfer of the debt securities from the seller (transferor) account to the buyer (transferee) the transfer and, hence, the legal transfer of ownership is final.

M. Market Participants

In the exchange bond market, market participants include the securities firms that are members of the exchange, as well as the exchange participants, which include commercial banks, asset managers, and insurance companies as investors and/or service providers. Please also see Chapter II.H for relevant details on exchange membership and participants. Foreign institutional investors are able to participate in the exchange bond market, under the QFII or RQFII schemes by acting through an exchange member or participant (see also Chapter II.N for details).

Issuers consist of the central and local governments and their agencies, as well as listed and unlisted companies and enterprises. Please see also Chapter III.B for a description of the typical debt instruments in the exchange bond market and their issuers.

In addition, the exchange bond market features a number of market institutions and infrastructure providers for the issuance, listing, trading, clearing, and settlement of bonds.

1. Issuers in the Exchange Bond Market

The exchange bond market features a wide range of issuers, from the Government of the PRC (in the form of Treasury bonds) and local governments and their agencies to policy banks and other state-controlled entities. Key among the issuers related to the government are stated-owned enterprises. For the most part, their issuances are, however, treated the same as corporate bonds, including when considering the credit rating.

From the private sector, many large listed companies, including financial institutions, issue their bonds in the exchange bond market. A particular section of issuers is represented by non-listed companies including SMEs that also issue a particular type of debt securities (through non-public or private placements). Please also see Chapter III.B for a description of the debt securities issued in the exchange bond market and their issuers.

2. Investors in the Exchange Bond Market

Direct participation in the exchange bond market is principally restricted to exchange members who are securities companies licensed by and under the supervision of CSRC. Securities companies appointed by the exchanges for the market-making of benchmark debt securities in the exchange bond market provide continuous bilateral quotations and make quotations in response to inquiries on the trading platform of the respective exchange. This makes the securities companies the most visible investors in the exchange bond market, even if their trading activities are on behalf of investor clients.

Pursuant to a Joint Notice of CSRC, PBOC, and (then) CBRC published in 2010, cash bond spot trading on the stock exchanges is allowed for listed commercial banks by using the stock exchange's centralized trading system (集中竞价交易系统).[57] In the context of the exchange rules, these institutions are referred to as nonmember participants (see also Chapter II.H).

The participation of specific investor types may also depend on the type of offering method for debt securities in the exchange bond market. Investors for a public offering of debt securities may include insurance companies, fund management companies, securities companies, trust and investment companies, affiliated finance companies of enterprises, retail investors, as well as QFIIs and RQFIIs.

Investors for non-public placement, which is the exchange bond market equivalent of a private placement, may only include Qualified Investors (see definition in section N). The prevailing number of Qualified Investors who may hold debt securities issued via a non-public placement shall not exceed 200 through the lifetime of the bond (see also issuance methods in Chapter III.E for more information).

Foreign institutional investors may participate in the exchange bond market if they have been approved to invest as a QFII or RQFII. QFIIs include asset management companies, insurance companies, securities firms, commercial banks, pension funds, charitable foundations, endowment funds, and sovereign wealth funds. QFIIs and RQFIIs are, however, unable to participate in repo transactions in the exchange bond market. For detailed information on the QFII and RQFII concepts and their underlying regulations, please refer to Chapter II.N.

3. Parties Involved in Debt Securities Issuance

A number of intermediaries provide services to issuers and investors in the context of the issuance of debt securities in the exchange bond market in the PRC. The following sections provide brief descriptions of the type of intermediaries in the market and their specific functions.

a. Primary Dealers

Primary dealers in the exchange bond market are securities companies that have to fulfill certain obligations in return for privileges. The obligations include the underwriting or selling of certain types of debt securities upon issuance, and the bilateral continuous quoting of prices or yields for selected debt securities. Primary dealers are appointed by the exchanges and may be securities companies (exchange members) or commercial banks (nonmember participants). See also Chapter II.H for more information on primary dealers and their roles.

b. Dealers and Securities Firms

Dealers are securities companies who are members of the exchanges, or commercial banks, being nonmember participants who are admitted to the central trading platform of the exchanges. Dealers sell debt securities issued to the public or via a non-public placement as a selling agent or in an underwriter capacity. Dealers must meet specific eligibility criteria contained in the

[57] For more information, please see http://www.csrc.gov.cn/pub/newsite/flb/flfg/bmgf/scjy/zjjy/201310/t20131021_236596.html.

membership rules of the exchanges. See also Chapter II.H for more information on the role and functions of dealers.

c. Underwriters

Underwriters are securities companies, as members of the exchanges, who commit to selling debt securities for an issuer into the exchange bond market. Underwriting is conducted on a firm commitment or an agency basis. In case an issuer appoints more than one underwriter, regulations require the designation of a lead underwriter.

Underwriters must meet certain eligibility criteria set in CSRC regulations and be licensed by CSRC for underwriting business.

d. Bond Trustee

Issuers wishing to issue debt securities via a public offering are required to appoint a bond trustee under CSRC regulations. Issuers wishing to issue debt securities via a non-public (private) placement are required to appoint a bond trustee under exchange rules. SAC rules also require the appointment of a bond trustee for corporate bond issuances.

The bond trustee must be an institution appointed by the underwriter of the bonds or another institution approved by CSRC. Trustees are commercial banks or securities firms. The trustee cannot be the guarantor of the debt securities. Please see section S in this chapter for more information on the bond trustee and its obligations.

e. Guarantor

In the event that an issuer of debt securities needs to improve their attractiveness or the chances of an issuance in the first place, a guarantor with an appropriate credit rating may be appointed. Guarantors may be commercial banks, securities companies, or other enterprises. A guarantor does not need approval from CSRC.

f. Commercial Banks

Commercial banks may act as underwriter or selling agent for debt securities to be issued. If acting in the exchange bond market, commercial banks need to be approved by CSRC to participate on the trading platform of the exchange. In addition, commercial banks will need to be admitted as nonmember participants on the exchange in order to commence direct trading.

g. China Securities Depository and Clearing Co., Ltd.

CSDC acts as the single central securities depository, settlement, and clearing agency of the exchange market, including the exchange bond market. Newly issued debt securities will need to be registered and deposited into CSDC in order to be eligible for listing, trading, and transfers in the exchange bond market.

h. Law Firms

Law firms involved in the issuance of debt securities in the exchange bond market do not require approval from CSRC.

i. Accounting Firms

Accounting firms involved in the financial audit of debt securities issuers, or in the compilation of issuance documentation, are not required to be approved by or accredited with CSRC. Accounting firms will need to be a member of their respective professional body to practice.

j. Asset Appraisal Institution

According to Article 17 of the Securities Law and Article 6 of the 2015 measures, in the case of issuing publicly offered bonds and non-publicly placed bonds, the asset appraisal report as quoted in the bond prospectus shall be issued by the asset appraisal institutions qualified for securities services and reported to CSRC.

While the requirement of the asset appraisal report in general was removed by CSRC as an amendment of the 2015 measures, asset appraisals may still be necessary if the issuer has experienced material asset reorganization in the past 3 years; in such cases, the asset appraisal report needs to be part of the application documents for debt securities issuance.

N. Definition of Investor Types

The exchange bond market distinguishes between public investors, also referred to as general or retail investors, and Qualified Investors. The type of debt securities issuance method—public offering or non-public placement—determines which investor types may participate in the issuance or offer. The official term non-public placement in the exchange bond market refers to private placements.

1. Introduction of Qualified Institutional Investors

In 2017, the SSE and SZSE issued their Measures for the Suitability Management of Investors in the Bond Market (Revised 2017) (证券交易所债券市场投资者适当性管理办法(2017年修订)) and determined the conditions for Qualified Investors in the exchange bond markets of the SSE and SZSE.[58] The contents of these measures issued by both exchanges are fundamentally consistent with one another.

In addition, in its Article 8, a new classification was introduced: the so-called QIIs (合格投资者中的机构投资者), which are Qualified Investors, but not including natural persons. The provisions also determined the bonds that may be subscribed to and traded by them, such as

i. corporate bonds and enterprise bonds with a credit rating below AAA (not including publicly issued convertible bonds),
ii. non-publicly placed corporate bonds and enterprise bonds,
iii. asset-backed securities, and
iv. other bonds approved by the SSE or SZSE that are only subscribed and traded by the institutional investors among Qualified Investors (i.e., QIIs).

The SSE and SZSE provide a suspension of their transfer service for listed bonds for which trading is limited to QIIs only.

In contrast, Article 7 of the measures refers to a public investor (公众投资者) as an investor other than a Qualified Investor (合格投资者) (see also the next section).

[58] See http://www.sse.com.cn/aboutus/mediacenter/hotandd/c/c_20170628_4334574.shtml.

2. Qualified Investors or Professional Investors

In the related regulations and exchange rules, both the terms Qualified Investor (合格投资者) and Professional Investor (专业投资者) are used. However, for all intents and purposes, these designations are virtually the same. For the sake of convenience, this bond market guide will use Qualified Investors for further references, but the term may be substituted with Professional Investors at any time. Please refer to Table 3.5 for a complete comparison of the two designations in the regulatory framework.

In the 2015 measures, the term Qualified Investor (合格投资者) was used for the first time. In the Measures for the Management of Suitability of Securities and Futures Investors (证券期货投资者适当性管理办法) (2017 measures), the term Professional Investor (专业投资者) was used instead. In addition, in the Measures for the Suitability Management of Investors in the Bond Market (债券市场投资者适当性管理办法) on the SSE and SZSE (both revised in July 2017), the term Qualified Investor (合格投资者) was used.

All of these investor definitions are stipulated in a similar manner, having almost identical contents. At the same time, the CSRC's 2017 measures do not limit products to corporate bonds and are prescribing in greater detail conditions for natural persons to be Professional Investors (专业投资者).

The conditions for eligibility as a Qualified Investor include the following:

i. financial institutions approved by the relevant regulatory authorities, including securities companies and their subsidiaries, futures trading companies, fund management companies and their subsidiaries, commercial banks, insurance companies, trust companies, and private equity investment companies registered with the relevant authorities;
ii. financial products issued by the above institutions to investors, including but not limited to asset management products of securities companies, fund management companies, futures companies and their subsidiaries, banking products, insurance products, trust products, and private equity products registered with the relevant authorities;
iii. pension funds, social security funds and enterprise annuity funds, and social welfare funds such as charitable funds;
iv. QFIIs and RQFIIs;
v. legal persons or organizations that meet the following conditions:
    a. assets of not less than USD20 million at the end of the last fiscal year;
    b. financial assets of not less than USD10 million at the end of the last fiscal year; [59]
    c. more than 2 years of investment experience in securities, futures, gold, foreign exchange, and other such assets.
vi. individuals who meet the following conditions:
    a. financial assets as of 20 business days before applying for accreditation of not less than CNY5 million or the average annual income for the past 3 years of not less than CNY500,000;
    b. more than 2 years of investment experience in securities, funds, futures, gold, foreign exchange, or more than 2 years of designing financial products, risk management and related work experience, or qualified through a financial institution approved by relevant regulatory authorities as senior management, a certified accountant, or a solicitor engaged in financial market-related business with professional qualifications; and
vii. other investors whom CSRC recognizes.

[59] Financial assets refer to bank deposits, stocks, bonds, funds, asset management plans, banking financing products, trust plans, insurance products, futures, as well as other derivative products.

For definitions of QFII and RQFII and their respective eligibility criteria, please refer to Chapter II.N.

When the SSE and SZSE issued the revised Measures for the Suitability Management of Investors in the Bond Market in July 2017, they included provisions that issuers, underwriting agencies, and securities operating agencies shall establish an appropriate management system for the determination of investor types.

Securities companies are required to conduct quality checks on an applicant investor about their eligibility as a Qualified Investor and send reports on such qualifications to the SSE or SZSE. The securities companies have to conduct follow-up quality checks on each Qualified Investor at least every 2 years.

Any Qualified Investor may subscribe to and trade, transact, or transfer all listed debt securities, participate in when-issued transactions, and collateral repo transactions (the latter with the exception of QFIIs and RQFIIs). At the same time, the following bonds and transactions are limited to QIIs for subscription and trading:

i. enterprise bonds and corporate bonds (excluding convertible bonds) with a credit rating lower than AAA,
ii. corporate bonds issued via a non-public placement,
iii. bonds that are approved for institutional investors only,
iv. bond borrowing and bond lending, and
v. outright repo transactions.

Table 3.5: Qualified Investors and Professional Investors in the Regulatory Framework

Qualified Investors (合格投资者)		Professional Investors (专业投资者)	
Measures for the Administration of Corporate Bond Offering and Trading, 2015 (公司债券发行与交易管理办法)		Measures for the Suitability Management of Securities and Futures Investors, 2017 (证券期货投资者适当性管理办法)	
Article 14: Qualified Investors (合格投资者) who have adequate abilities to identify and tolerant risks, are aware of and independently assume risks associated with investment in corporate bonds, and meet the following eligibility conditions:		Article 7: Investors are divided into ordinary investors (普通投资者) and professional investors (专业投资者). Ordinary investors enjoy special protection in information provision, risk warning, and appropriate matching. Article 8: A professional investor must meet one of the following conditions:	
Sec	Description	Sec	Description
1	Financial institutions formed upon the approval of competent financial regulatory authorities, including securities companies, fund management companies and the subsidiaries thereof, futures companies, commercial banks, insurance companies and trust companies, and privately offered fund management institutions registered with the Asset Management Association of China (中国证券投资基金业协会)	1	Financial institutions approved by the relevant financial regulatory authorities, including securities companies, futures companies, fund management companies and their subsidiaries, commercial banks, insurance companies, trust companies, financial firms and so on; subsidiaries of securities companies and futures companies registered by trade associations, private equity managers

2	The wealth management products issued by the aforesaid financial institutions to investors, including, but not limited to, securities companies' asset management products, products of funds and fund subsidiaries, futures companies' asset management products, banks' wealth management products, insurance products, trust products, and privately offered funds registered with the Asset Management Association of China	2	Financial products issued by the above-mentioned institutions to investors, including, but not limited to, the assets management products of securities companies, fund management companies and their subsidiaries, futures company assets management products, bank financial products, insurance products, trust products, and private equity funds filed by trade associations
3	The legal persons of enterprises and public institutions and partnerships with net assets of not less than CNY10 million	4	Legal persons or other organizations that meet the following conditions: i. net assets at the end of the last year of not less than CNY20 million; ii. financial assets at the end of the last year of not less than CNY10 million; and iii. 2 years of investment experience in securities, funds, futures, gold, and foreign exchange
4	QFII and RQFII	3-2	QFII and RQFII
5	Social security fund, enterprise annuities and other pension funds, charitable funds, and social welfare funds	3-1	Social security fund, enterprise annuities and other pension funds, charitable funds, and social welfare funds
6	Individual investors with not less than CNY3 million of financial assets under their names	5	Natural persons who meet the following conditions: i. financial assets of not less than CNY5 million, or the average annual income of individuals in the last 3 years of not less than CNY500,000;[a] ii. 2 years of investment experience in securities, funds, futures, gold, or foreign exchange, or more than 2 years of financial product design, investment, risk management, and related work experience, or a senior manager of a professional investor under the provisions of subparagraph (1) of this article, and a certified public accountant and lawyer who is engaged in financial-related business with professional qualifications
7	Other Qualified Investors recognized by CSRC	11	Ordinary investors and professional investors can transition from one investor type to the other under certain conditions. A professional investor who complies with the provisions of Article 8(4) and (5) of these measures may inform the operating institution in writing of its choice to become an ordinary investor, and the operating institution shall perform its corresponding appropriate obligation. An ordinary investor who is eligible to apply for conversion to a professional investor under one of the following conditions, however, the operating agency has the right to decide whether to agree to the conversion of investor type:

			i. At the end of the last year, the investor must have net assets of not less than CNY10 million; financial assets of not less than CNY5 million; and more than 1 year of securities, funds, futures, gold, foreign exchange, and other investment experience in addition to professional investors outside the legal person or other organizations; or ii. financial assets of not less than CNY3 million, or average annual income in the last 3 years of not less than CNY300,000; and more than 1 year of securities, funds, futures, gold, foreign exchange, and other investment experience; or more than 1 year of financial product design, investment, risk management, and related work experience of natural investors

CNY = Chinese renminbi, QFII = Qualified Foreign Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor.
[a] Financial assets referred to in the preceding paragraph refer to bank deposits, stocks, bonds, fund shares, asset management plans, banking products, trust schemes, insurance products, futures and other derivative products
Source: Unofficial translation by ABMF SF1.

3. Public Investors (公众投资者) or Ordinary Investors (普通投资者)

There is no classification of investors in the Securities Law. At the same time, the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium-Sized Investors in the Capital Market, 2013 stipulated that the safeguarding of the legitimate rights and interests of SME investors is the top priority of regulatory authorities in the securities and futures markets.

- Article 29 of the State Council's Opinions on Further Promoting the Healthy Development of the Capital Market, 2014 seeks to improve the investor suitability system and strictly manage the appropriateness of investors; and improve the voting and voting mechanism of SME investors in public companies, optimize the investor return mechanism, and improve the diversified dispute resolution and investor damage compensation mechanism. Institutional investors such as securities investment funds are urged to participate in the performance announcement of listed companies to exercise their rights on behalf of public investors (公众投资者).
- Article 14A of the 2015 measures (公司债券发行与交易管理办法) stipulates that Qualified Investors (合格投资者), who have adequate abilities to identify and tolerant risks, are aware of and independently assume risks associated with investment in corporate bonds and meet the eligibility conditions.

Article 7 of the most recent Measures for the Suitability Management of Securities and Futures Investors, 2017 (证券期货投资者适当性管理办法) stipulates a distinction between ordinary investors (普通投资者) and professional investors (专业投资者), as follows:

> Investors are categorized into ordinary investors (普通投资者) and professional investors (专业投资者). Ordinary investors shall enjoy particular protection in such aspects as information notification, risk warning and suitability matching.

In conclusion, in the absence of a specific definition of public (or ordinary) investors, such investors are those other than Qualified Investors (professional investors), which are defined in the above measures.

According to the Article 9 of the Measures for the Suitability Management of Investors in the Bond Market (债券市场投资者适当性管理办法) in the Shanghai and Shenzhen Stock Exchanges (Suitability Measures), public (ordinary) investors may subscribe to and trade in the following listed bonds on the exchanges:

i. Treasury bonds;
ii. local government bonds;
iii. policy financial bonds;
iv. publicly issued convertible bonds;
v. corporate bonds which carry conditions as publicly offered corporate bonds intended for public investors, that are so stipulated under the 2015 measures, and the exchange corporate bond listing rules (these bonds tend to be AAA-rated enterprise bonds and corporate bonds (excluding convertible bonds); and
vi. other bond products approved by the exchange.

If a public investor obtains, due to inheritance, donation, or the break-up of a company, bonds that are limited to Qualified Investors, the public investor may choose to hold them to maturity or sell the bonds, but no further purchase is allowed.

In addition, should one of the incidents mentioned below occur with regard to bonds that are listed, traded, and transferred in the exchange bond market on the SSE or SZSE, the issuer, trustee, or any institution responsible for the disclosure must make an announcement of the relevant investment risks in a timely manner. From the date of such an announcement about the incident, only QIIs may purchase such bonds. Public investors or non-institutional Qualified Investors may choose to hold affected bonds to maturity or sell the bonds, but no further purchase will be permitted. Pursuant to Article 11 of the Suitability Measures, notable incidents include the following:

i. the credit rating of a corporate bond or enterprise bond was downgraded to lower than AAA;
ii. the issuer's most recent audited financial statement shows losses or financial reports are corrected to show losses;
iii. the issuer has defaulted on debts, deferred payment of principal or interest, or other events which may significantly affect the issuer's capabilities of debt payment;
iv. serious violations of laws or regulations have occurred, or an investigation is carried out by the relevant authority; and
v. other events recognized by the exchanges.

If the issuer, the bond trustee, or the institution with the same or equivalent responsibilities does not receive an announcement as mentioned in the preceding paragraph, the exchange may adjust the bond investors' suitability management requirements according to the actual situation and make a corresponding announcement.

O. Credit Rating Requirements

This section details the actual domestic credit rating requirements for debt securities issued in the exchange bond market, and the application of those credit rating requirements in the issuance process. For information on CRAs and their underlying regulations, please refer to Chapter II.O.

1. Public Offerings

According to the 2015 measures (公司债券发行与交易管理办法), corporate bonds to be issued to general (public) investors in the exchange bond market are required to have an initial new issue rating of AAA on the domestic rating scale from a domestic CRA (Article 18 [3]). The rating is to be prominently featured in the public offering prospectus of the debt securities to be issued.

2. Public Offerings to Qualified Investors

If a corporate bond does not meet the credit rating requirement of AAA, it may still be sold via a public offering but only to Qualified Investors (see also Chapter II.F for a description of the regulatory process for such offerings). In such a case, the issuer should submit an application to the SSE or SZSE for an examination of the issuance and listing of the bonds prior to the issuance.

At the same time, if any of the four conditions listed below cannot be met at the time when the bonds are listed, the competitive bidding (竞价) or centralized auction method (集中竞价交易) cannot be used for issuing and trading the bonds; however, the quotation (报价), inquiry (询价), and agreement (协议) trading methods are still possible on the SSE, while the SZSE will only permit the agreement block trading method (协议大宗交易).

According to the Notice on Amending the Corporate Bond Listing Rules of the Shanghai and Shenzhen Stock Exchanges, issued on 7 December 2018, the four conditions are as follows:

i. the bond credit rating reaches AA grade or above;
ii. before the issuance of bonds, the issuer's net assets at the end of the last period are not less than CNY500 million, or the asset–liability ratio at the end of the latest period is no higher than 75%;
iii. prior to the listing of the bonds, the average annual assignable profit achieved by the issuer in the last 3 fiscal years is not less than 1.5 times the annual interest on bonds; and
iv. other exchange conditions set forth herein.

3. Panda Bonds

For the issuance of Panda bonds so far, a nonresident issuer has been required to have its bonds rated AA or higher on the domestic rating scale by at least two CRAs (at least one of them a domestic CRA).

However, according to the 2018 Joint Announcement by the PBOC and MOF (No. 16) (中国人民银行财政部公告〔2018〕第 16 号) on the Provisional Measures for the Administration on Bond Issuances by Foreign Entities in CIBM (全国银行间债券市场境外机构债券发行管理暂行办法), a nonresident issuer that publicly discloses the credit rating on its bonds is required to have such credit rating issued by a CRA accredited in the CIBM. There is no mention of the need for a minimum rating of AA.

At the same time, in the exchange bond market, as of the end of February 2019, CSRC and the MOF were in the process of formulating similar provisions to those in the CIBM, under which a credit rating for nonresident issuers would not be mandatory to issue Panda bonds in the exchange bond market, and the relevant rules also would not impose tough requirements for the credit ratings of overseas issuers.

4. Non-Public Offering (Private Placement)

There are no prescriptions for the level of credit rating for non-public offerings (private placements) of bonds in the exchange bond market. However, as part of market practice, the issuer will disclose its credit rating in the bond prospectus or bond offering memorandum, since Qualified Investors in the exchange bond market tend to require a credit rating in order to be able to invest in the debt securities.

P. Financial Guarantee Institution

The issuance of bonds within the PRC does not require the issuer to provide guarantees for bond issuance, but the issuer of corporate bonds can independently adopt third-party guarantees, asset mortgages, pledge guarantees, and other credit enhancement mechanisms to improve solvency or the attractiveness of the debt securities to be issued.

Q. Market Features for Investor Protection

The exchange bond market features a number of mechanisms that are aimed particularly at protecting general or public investors. In the Opinions of the General Office of the State Council on Further Strengthening the Protection of the Legal Rights and Interests of Small and Medium-Sized Investors in the Capital Market, 2013, the safeguarding of the legitimate rights and interests of small and medium-sized investors was declared the top priority of the regulatory authorities in the securities and futures markets.

1. Securities Law

The Securities Law was enacted to standardize the issuing and trading of securities, protect the lawful rights and interests of investors, safeguard economic order and the public interest, and promote the development of the socialist market economy.

2. Regulatory Framework

CSRC established a bond classification management system, a bond trustee system, and a bondholders meeting system.

As guidance to regulatory authorities on how to further develop the capital market, the State Council published its Opinions on Further Promoting the Healthy Development of the Capital Market in 2014. Article 29 emphasized the improvement of the investor suitability system in order to strictly manage the appropriateness of investors; strengthen the voting mechanism of small and medium-sized investors in public companies, optimize the investor return mechanism, and improve the diversified dispute resolution and investor damage compensation mechanism. The State Council has also advocated for institutional investors, such as securities investment funds, to participate in the performance reviews of listed companies to exercise their rights on behalf of public investors (公众投资者).

3. Investor Education and Complaints

As one of the initiatives under the investor protection focus mentioned above, the China Securities Investor Services Center, which is officially known as the Medium and Small Investor Service Center Limited Liability Company, was established in

December 2014.[60] The center is a corporate unit of the company, which is a securities and financial institution that is directly administered by the CSRC. Shareholders in the China Securities Investor Services Center include the SSE, SZSE, Shanghai Futures Exchange, China Financial Futures Exchange, and CSDC.

The main responsibilities of the China Securities Investor Services Center are to provide education and information, legal support, technology, and other services for small and medium-sized investors. The center is also responsible for the operation of the Chinese Investor Network website.

The SSE and SZSE have specialized investor education departments and positions responsible for investor education, investor advisory, and investor complaints. Investors can consult, complain, or report on relevant issues by sending emails or letters, or by calling the investor hotline. The SSE and SZSE handle each such issues on a case-by-case basis.

4. Investor Suitability Concept

Investors are distinguished between Qualified Investors and general or public (retail) investors (see also section N in this chapter). Qualified Investors are subject to eligibility criteria, the confirmation of eligibility by their appointed securities company, and a review of such eligibility on a biennial basis.

Qualified Investors may subscribe to, and trade listed bonds, but non-publicly placed corporate bonds are limited to only the institutional investors among Qualified Investors (i.e., category QIIs) for subscription and trading.

Retail investors can invest in bonds issued via public offerings and pledged repos; eligible bonds must be AAA-rated to ensure that investments by public investors have a minimum risk of default. Retail investors are excluded from participating in non-public placements as well as public offerings to Qualified Investors only.

5. Bond Trustee Concept

Debt securities issued via a public offering require the appointment of a bond trustee. Prior to the issuance of a corporate bond, the issuer has to execute a trustee agreement with a CSRC-approved bond trustee in order to ensure the general protection of the interests of the bondholders. The appointed bond trustee needs to be a member institution of the SAC (see also Chapter II.H). If the bond to be issued features a guarantor, such a guarantor is not eligible to act as bond trustee.

The bond trustee needs to be approved by the underwriting agency of the bonds or another institution approved by CSRC. While bond trustees are often commercial banks or securities companies, Article 49 of the 2015 measures only requires the bond trustee to be a member of the SAC. In practice, there are also a small number of nonfinancial institutions and other member units of law firms acting as bond trustees.

At the same time, for non-public (private) placement bonds to be listed and traded on the exchanges, the SSE and SZSE are requiring issuers to appoint a bond trustee.

For more details on the trustee concept and related market features, please refer to sections S and T.

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[60] See http://www.isc.com.cn/about_us/.

6. Investor Protection Fund

In June 2005, CSRC, the MOF, and the PBOC promulgated the Measures for the Administration of Securities Investor Protection Funds, with the approval of the State Council. On 30 August 2005, China Securities Investor Protection Fund Co., Ltd. (SIPF), a wholly state-owned company, was set up under those measures for the purpose of protecting the legitimate rights and interests of securities investors. SIPF operates under the supervision of the CSRC and its registered capital at inception was CNY6.3 billion, injected into SIPF by the State Council via the MOF.

More information on the role and functions of SIPF is available on its website.[61]

7. Deposit Insurance

The PRC introduced a bank deposit insurance scheme on 31 March 2015. The insurance scheme took effect on 1 May 2015. The Deposit Insurance Act, passed by the 67th Executive Meeting of the State Council, gave rise to the launch of the insurance program, which covers deposits of up to CNY500,000.

8. Foreign Investors

Foreign investors may invest in the exchange bond market through the QFII or RQFII market access schemes (see Chapter II.N for a detailed description of the schemes). Foreign investors in the exchange bond market have the same rights and obligations as domestic investors and occupy the same creditor positions as domestic investors in the event of nonpayment of interest or principal on a bond or note, or the insolvency or bankruptcy of an issuer.

R. Meeting of Bondholders

A meeting of bondholders is an integral part of the investor protection concept in the exchange bond market. The appointment of a bond trustee (受托管理人) is mandatory—such as in the case of bonds issued via a public offering—and the bond trustee will convene a bondholders' meeting as and when required. The circumstances under which a bondholders' meeting is to be called and the rules for such meeting should be described in the prospectus, including the scope of the bondholders' rights to exercise, the convening, notification of bondholders, the decision-making mechanism, and other relevant provisions.

Based on the Article 55 of the 2015 measures, the SSE and SZSE Corporate Bond Listing Rules (both revised in 2018) updated the circumstances under which bondholders' meetings should be held during the existence of the bonds.

Circumstances under which a bondholders' meeting should be convened—for instance, under Article 4.3.2 in the SZSE Corporate Bond Listing Rules—include the following:

i. when change is proposed to the terms and conditions of the bonds stipulated in the bond prospectus;
ii. when change is proposed to amend the rules of bondholders meeting;
iii. when change is proposed to the bond trustee(s) and the main contents of the corporate bond trustee management agreement;

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[61] China Securities Investor Protection Fund. *Annual Reports (various years)*. http://www.sipf.com.cn/NewEN/images/aboutsipf/annualandmonthly/2018/04/26/B978BBA94339155A0B2D56FFB1DD501B.pdf.

iv. the issuer becomes unable to perform payment obligation of the principal and interest in a timely manner;
v. major changes such as the issuer's capital reduction, merger, division, dissolution, custody, bankruptcy or bankruptcy proceedings;
vi. significant changes in the main body of credit enhancement, credit enhancement measures, or other debt repayment guarantee measures that have a material adverse impact on the interests of bondholders;
vii. the issuer or the bondholder who holds more than 10% of the total amount of the bond, individually or in total, proposes to the bond trustee in writing;
viii. the issuer's management cannot perform its duties normally, resulting in serious uncertainty about the issuer's ability to pay debts;
ix. the issuer may cause significant changes due to major debts or asset restructuring;
x. other meetings stipulated in the bond prospectus should be held at the meeting of bondholders; and
xi. other events that have a significant impact on the rights and interests of bondholders.

Among them, in the case of items iv., v., vi., viii., and ix. above, the bondholders meeting should decide whether to take countermeasures or not.

Pursuant to Article 4.3.3 of the SZSE Corporate Bond Listing Rules, if the issuer, or a bondholder who holds a total of more than 10% of the total amount of bonds in the current period, proposes to the bond trustee to convene a bondholders meeting, the bond trustee shall reply to the proposer in writing within 5 business days from the date of receipt of the written proposal and explain the reasons for either convening or not convening the meeting.

If the party agrees to convene a meeting, the bond trustee shall convene a meeting within 15 business days from the date of the written reply, unless the proponent agrees to postpone the meeting.

When the bond trustee does not agree to convene or should convene but does not convene a bondholder meeting, the issuer or the bondholder who holds more than 10% of the total amount of the bond, has the right to convene the bondholders meeting. The bond trustee shall provide necessary assistance for the bondholders meeting.

S. Bond Trustee

The PRC’s exchange bond market features a commissioned company system, referred to as the “bond trustee” concept, which is available only for the protection of bondholders of corporate bonds and enterprise bonds. For convertible bonds, the listed company shall specify the method of protecting the rights of the bondholders, the powers and procedures of the bondholders' meetings, and the conditions for resolutions from such meetings to take effect. The appointment of a bond trustee is mandatory for public offerings, while a bond trustee may be appointed for a non-public placement on a voluntary basis under CSRC regulations. At the same time, the SAC code of conduct and exchange guidelines require the appointment of a bond trustee for all corporate bonds.

The bond trustee shall act in the best interest of the bondholders and shall not have any conflict of interest with the bondholders. During the lifecycle of a bond or note, the bond trustee shall protect the rights and interests of the bondholders in accordance with the bond trustee agreement. The issuer shall state in the bond prospectus or other key disclosure document that investors' subscription for the bonds shall be deemed as their acceptance of the corporate bond trustee management agreement.

In case of a guaranteed bond, the institution that provides the guarantee for the issue shall not serve as the trustee for the bond.

1. SAC Guidelines Related to Bond Trustee

The SAC has issued a number of rules and guidelines for the code of conduct and the actual functions and obligations of a bond trustee.

a. Corporate Bonds Trustees Practice Code of Conduct

On 5 June 2015, the SAC issued the Notice on Issuing the Professional Code of Conduct for Corporate Bond Trustees, 2015 (公司债券受托管理人执业行为准则) to regulate the behavior of the bond trustee for corporate bonds and to protect the legitimate rights and interests of investors.[62]

Article 4 of this code stipulates that where a corporate bond is issued, the issuer shall appoint a bond trustee for the bondholders, and the bond trustee shall enter into a corporate bond trustee management agreement (公司债券受托管理协议) with the issuer.

Article 7 stipulates that the trustee shall be a member of the SAC. The following institutions can act as trustees:

i. the underwriting institution that helped issue the current corporate bonds, and
ii. other institutions recognized by CSRC.

An institution that provides a guarantee for a bond issuance shall not be the trustee of that bond issue. The issuer who sells its own-issued bonds by itself shall not be the trustee of such bond issue.

b. Guidelines on the Disposal of Corporate Bond Default Risk by the Trustee of Corporate Bonds

On 17 March 2017, the SAC issued the Corporate Bond Trustee's Guidelines to Dealing with Default Risks of Corporate Bonds (公司债券受托管理人处置公司债券违约风险指引) to protect the legitimate rights and interests of investors in accordance with the 2015 measures (公司债券发行与交易管理办法) and other relevant laws and regulations.[63]

The guidelines prescribe an emergency management mechanism, which stipulates that the trustee should formulate an emergency management system for the disposal of corporate bond default risk and clarify the relevant systems and work requirements. The disposition of the default risk is classified into the expected default disposition—when the issuer is expected to default—and disposition under a substantive breach of contract which stipulates the work that the trustee should carry out when the issuer commits a material breach of contract.

[62] See http://www.sac.net.cn/flgz/zlgz/201506/t20150605_122744.html.
[63] See http://www.sac.net.cn/tzgg/201703/t20170317_130780.html.

Pursuant to the issuance of the guidelines, the corporate bond trustee should, as required, establish an emergency management system for the disposal of corporate bond default risk and strictly implement it.

2. Bond Trustee for a Public Offering

Pursuant to Articles 48–51 of the 2015 measures, the appointment of a bond trustee is mandatory for a public offering and the obligations of the trustee to service a corporate bond or enterprise bond are prescribed in the following manner:

i. monitoring the credit status of the issuer (and guarantor, if any);
ii. supervising the proper use of proceeds;
iii. investigating an issuer's solvency;
iv. supervise initial and continuous disclosure;
v. ensuring the issuer seeks a guarantee or applies for legally preserving property when a repayment of debt becomes highly unlikely;
vi. diligently negotiating with or litigating against the issuer on behalf of investors;
vii. ensuring proper collateral management;
viii. filing civil proceedings on behalf of all or part of the investors; and
ix. participating in the legal proceedings for reorganization or bankruptcy.

3. Bond Trustee for a Non-Public Placement

An issuer intending to issue a bond or note through a non-public (private) placement in the exchange bond market may appoint a bond trustee, if investors so desire. The appointment of a bond trustee for non-public offers is not mandatory under the Securities Law or CSRC regulations.

However, the SSE issued the Notice on the Issues Related to Strengthening the Risk Prevention and Control of Private Placement Bonds in Small and Medium-Sized Enterprises (关于加强中小企业私募债券风险防控工作相关事项的通知) on 7 January 2015, which requires the issuers of SME private placement bonds to also appoint a bond trustee.[64] This practice has since been expanded to cover all non-publicly placed corporate bonds listed on the SSE. Bond trustees need to be members of the SAC.

The bond trustee's obligations for the non-public placement of corporate bonds are based on what was agreed in the corporate bond trustee management agreement, and the conditions described in the bond prospectus or such other key disclosure document.

T. Bankruptcy and Insolvency Provisions

1. Bankruptcy Provisions

In the PRC, provisions on bankruptcy mainly consist of the prescriptions in the Enterprise Bankruptcy Law (中华人民共和国企业破产法), which came into effect on 1 June 2007; the Company Law; the Securities Law; the Commercial Bank Law; as well as other relevant laws and regulations.[65]

According to Article 7 (2) of the Enterprise Bankruptcy Law, a creditor shall be entitled to ask the debtor to declare bankruptcy. If a legal person that is an enterprise cannot repay due debts and its assets are insufficient to pay off all the debt or it apparently

[64] See http://www.sse.com.cn/lawandrules/sserules/trading/bond/c/c_20150912_3985913.shtml.
[65] Information in part adapted from http://en.wikipedia.org/wiki/Bankruptcy_in_the_People's_Republic_of_China.

lacks solvency, it should resolve its debt in accordance with the prescriptions in the Enterprise Bankruptcy Law.

In addition to the provisions of the Enterprise Bankruptcy Law, other relevant provisions exist for, specifically, cases of bankruptcy or insolvency for financial institutions, mainly focused on debtor–creditor relationship.

After an enterprise is declared bankrupt in accordance with the Enterprise Bankruptcy Law, its collateral property does not belong to the estate, but will be used for the repayment of its secured debt, while any remaining amounts will be included in the estate.

2. Settlement of Assets under Bankruptcy or Insolvency Proceedings

Settlement using available assets from a debtor in bankruptcy or insolvency proceedings will occur in the following order:

i. expenses for bankruptcy proceedings include litigation cost involved in a bankruptcy case; expenses for management, realization and distribution of the debtor's assets; and expense involved in the administrator's performance of these duties and paid for his remuneration and expenses for the employees recruited;

ii. community debts include the debts generated when the bankruptcy custodian or debtor requests the opposite party concerned to perform a contract that is not fulfilled completely by both parties concerned; the debts generated from the custodial management of the debtor's assets; the debts generated from improper gains; the labor cost for the continuance of business operation, social insurance premiums, as well as other debts as incurred therefrom; the debts generated from the damage that occurs during the performance of functions and duties by a bankruptcy custodian or other relevant personnel; and the debts generated from any damage due to the debtor's assets;

iii. wages including subsidies for medical treatment and disability, and comfort and compensatory funds as owed by a debtor, the fundamental old-age insurance premiums, fundamental medical insurance premiums that shall have been transferred into the employees' personal accounts, as well as the compensation for the employees as prescribed by relevant laws and administrative regulations;

iv. social insurance premiums other than those as prescribed in the aforesaid provisions and tax fees as defaulted by the bankruptcy; and

v. common credits of bankruptcy in which the insolvent assets are not enough to meet the requirements for liquidation in a same sequence, it shall be distributed in accordance with their proportion.

After the global financial crisis and based on lessons learned from the risk of the bankruptcy of large financial institutions, the PRC is developing Financial Institution Bankruptcy Management Regulations, aiming to find a resolution to the problem of large financial institutions too big to fail.[66]

In general, mechanisms or measures that an issuer can adopt in order to improve its chances of solvency and to exercise risk control include, but are not limited to, the following

[66] ADB. 2012. *ABMF Phase 1 Report: ASEAN+3 Bond Market Guide*. Manila.

i. third-party guarantee,
ii. insurance,
iii. mortgage or pledge assets,
iv. limit the issuer's debt and external guarantees,
v. restrict foreign investment,
vi. limit the sale of mortgage or major assets to a third party, and
vii. other measures.

3. Other Reference Material on Bankruptcy and Insolvency

Further details on the restructuring and insolvency frameworks of Asia-Pacific economies can be found in *The Asia-Pacific Restructuring & Insolvency Guide* and *A Guide to Asia-Pacific Restructuring and Insolvency Procedures*.[67]

U. Event of Default and Cross-Default

The issuer has to stipulate in the prospectus or other such key disclosure document the circumstances that would lead to a default of the bonds; its liability for breach of contract and covenants; and the way in which potential litigation, arbitration, or other dispute resolution mechanisms are handled after a default of the corporate bonds has occurred. Usually, a default occurs at the end of the day.

While in many countries the declaration of a default remains at the determination of the bondholders, through the process of the bondholder meeting, the 2015 measures and the SSE and SZSE listing rules for corporate bonds do not stipulate that the event of default shall be declared by the bondholders meeting.

If the issuer commits an actual breach of contract or faces an expected default in the sense of the Contract Law, the parties to the bond's legal relationship may still directly claim the breach of contract or bear the liability for breach of contract without having to declare it.

In addition to the case of default on interest or principal by an issuer, an event of default can also occur by a participant in a depository. Such participant default refers to a default either in payment of any sum payable to CSDC or the default in delivery of securities to CSDC.

An event of participant-versus-investor default is either a client's default in any of the payment obligations due to the clearing participant or a client default in delivery obligations owed to the clearing participant. The clearing participant should recognize and declare an event of default, even if such default is not due to the clearing participant itself.

1. Covenants, Cross-Default, and Acceleration Clause

The use of a cross-default clause is increasingly being introduced in issuance documentation. An acceleration clause is also more likely to be included in issuance documentation. Banks can offset debts against assets of the same account holder, since such an offset of liabilities versus assets is permitted by law.

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[67] White & Case LLP. *Asia Pacific Restructuring & Insolvency Guide*. https://www.whitecase.com/publications/alert/asia-pacific-restructuring-insolvency-guide; Clifford Chance. 2018. *A Guide to Asia-Pacific Restructuring and Insolvency Procedures*. https://onlineservices.cliffordchance.com/online/freeDownload.action?key=OBWIbFgNhLNomwBl%2B33QzdFhRQAhp8D%2BxrIGRel2crGqLnALtlyZe2l6bUKAO8L%2FFGIGwcvi3Hbp%0D%0A5mt12P8Wnx03DzsaBGwsIB3EVF8XihbSpJa3xHNE7tFeHpEbaeIf&attachmentsize=30182406.

2. Corporate Bond Default in the Exchange Market

The exchange market experienced its first domestic corporate bond outright default in March 2014. Since then, policy bodies, regulatory authorities, and SROs have amended and issued several measures and rules governing bond issuances in 2015 to bolster market development while better protecting investors.

On 17 March 2017, SAC issued the Corporate Bond Trustee Guidelines to Dealing with Default Risks of Corporate Bonds (公司债券受托管理人处置公司债券违约风险指引) to protect the legitimate rights and interests of investors in accordance with the 2015 measures and other relevant laws and regulations.[68]

The guidelines prescribe an emergency management mechanism, which stipulates that the bond trustee should formulate an emergency management system for the disposal of corporate bond default risk and clarify the relevant systems and work requirements. The disposition of the default risk is classified into expected default disposition—when the issuer is expected to default—and disposition under a substantive breach of contract, which stipulates the work that the bond trustee should carry out when the issuer commits a material breach of contract.

Pursuant to the issuance of the guidelines, the corporate bond trustee should, as required, establish an emergency management system for the disposal of corporate bond default risk and strictly implement it.

At the end of 2018, the SSE and SZSE listing rules for corporate bonds were revised to stipulate detailed descriptions regarding the protection of the rights and interests of bondholders, including (i) obligations and measures of debt repayment safeguards, and (ii) obligations and duties of the bond trustee.

For instance, when the issuer expects to not be able, or is no longer able to repay the debt (i.e., an event of default occurs or is likely), in accordance with the relevant provisions, contracts, or authorization of empowerment of the bondholders, the bond trustee shall diligently deal with matters related to the bond default risk and resolve related matters, including but not limited to negotiations with the issuer. The bond trustee shall also negotiate with the credit enhancement entity (if any) and other responsible entities. The bond trustee may require the issuer to provide additional collateral or security, and the bond trustee shall accept the entrustment of the bondholders to apply for property preservation measures in accordance with the law. Similarly, the bond trustee shall file any civil action, apply for arbitration, participate in the legal proceedings relating to a reorganization, restructuring, or bankruptcy, as the case may be.

[68] See http://www.sac.net.cn/tzgg/201703/t20170317_130780.html.

IV

Bond and Note Transactions and Trading Market Infrastructure

Debt instruments issued in the PRC may be listed and traded on the exchanges and/or traded in the CIBM or other market segments. This chapter details the infrastructure and trading practices of the exchange bond market.

A. Exchange Bond Market

Table 4.1: Debt Securities Turnover on the Shanghai Stock Exchange
(CNY billion)

Bond Type (债券现货)	2014	2015	2016	2017	2018
Treasury bonds (国债)	124.75	411.75	578.05	174.03	122.03
Local government bonds (地方政府债)	–	21.32	199.25	71.35	133.18
Policy financial bonds, insurance company bonds, securities company bonds (政策性金融债，保险公司债, 证券公司债)	30.13	48.40	3.44	16.03	87.86
Enterprise bonds (企业债)	1,230.95	1,022.33	727.50	593.77	403.82
Corporate bonds (公司债) total	365.52	782.59	2,681.53	3,275.46	3,974.05
Publicly offered corporate bonds (公开发行公司债券)	322.27	579.16	1,523.63	1,832.16	2,393.89
Non-publicly placed corporate bonds (非公开发行公司债)[a]	40.97	168.24	1,116.40	1,363.75	1,462.14
Exchangeable corporate bonds (可交换债)	2.28	35.19	41.50	79.55	118.02
Convertible bonds (可转换公司债)	766.12	742.68	103.49	185.87	231.48
Detachable convertible bonds (分离式可转债)	26.59	12.01	5.78	-	-
Asset-backed securities (资产支援证券)	6.31	28.64	83.36	126.63	173.84
Total	**2,550.37**	**3,069.71**	**4,382.41**	**4,443.14**	**5,126.26**

CNY = Chinese renminbi.
[a] Includes small and medium-sized enterprise private placement bonds.
Source: Shanghai Stock Exchange. Bond Data Overview. http://www.sse.com.cn/market/bonddata/overview/yearly/.

The trading venues for bonds in the exchange bond market are the SSE (Table 4.1) and the SZSE (Table 4.2). Although NEEQ had been included in the choice of trading venues for corporate bonds under the 2015 measures, bond trading on that venue had not commenced at the time of the compilation of this Bond Market Guide.

Given the nature of an exchange bond market, direct participants are limited to securities companies that are members of the exchange. Other typical market participants in a bond market, such as commercial banks, can participate indirectly in the exchange bond market, by routing their buy and sell orders through the member securities firms. At the same time, if so admitted by the exchanges, commercial banks and other financial institutions may receive direct access to the centralized trading platform of the exchanges as nonmember participants (see also Chapter II.H for further details).

Table 4.2: Debt Securities Turnover on the Shenzhen Stock Exchange
(CNY billion)

Bond Type (债券现货)	2014	2015	2016	2017	2018
Treasury bonds (国债)[a]	1.28	1.70	3.73	13.75	0.51
Local government bonds (地方政府债)					3.81
Government support bonds (政府支持债券)				–	1.96
Policy financial bonds (政策性金融债)				–	22.94
Securities company subordinated bonds (证券公司次级债)				5.20	18.01
Securities company short-term notes (证券公司短期债)				3.05	4.42
Enterprise bonds (企业债)	20.21	11.66	6.08	4.83	1.89
Corporate bonds (公司债) total[a]	191.32	216.10	347.41	1,005.14	928.56
Publicly offered corporate bonds (公开发行公司债券)				381.48	437.68
Non-publicly placed corporate bonds (非公开发行公司债券)[b]				600.29	472.09
Exchangeable corporate bonds (可交换公司债)				–	0.78
Non-publicly placed exchangeable corporate bonds (非公开发行可交换公司债券)				23.37	18.01
Convertible bonds (可转换公司债)	31.18	66.71	29.81	41.09	215.90
Detachable convertible bonds (分离式可转债)				–	–
Asset-backed securities (资产支援证券)				–	–
Total	**243.98**	**296.17**	**387.02**	**1,073.06**	**1,197.99**

CNY = Chinese renminbi.
[a] Prior to 2018, the Shenzhen Stock Exchange (SZSE) did not break down central and local government bond trading numbers; prior to 2017, it did not break down corporate bond trading numbers into the above categories.
[b] Includes small and medium-sized enterprise private placement bonds.
Source: SZSE. 2016. *SZSE Fact Book 2016*. Shenzhen; SZSE. Overview. http://bond.szse.cn/marketdata/statistics/overview/co/index.html.

Trading counterparties may also conclude deals in debt securities between themselves and then capture the trade details in the appropriate function of the trading platform of an exchange.

B. Trading Platforms

The exchange bond market trading is based on continuous order-driven pricing quotes on the centralized automatic trade-matching systems at the SSE and the SZSE, respectively, and trades are settled on a net amount basis through CSDC, as the dedicated settlement institution and depository for the exchange bond market.

Other than the continuous order-driven trading mechanism, SSE also has a dedicated fixed-income platform.[69] Transactions on the electronic platform are either in the form of quotation transactions or price inquiry-based transactions (please refer to the next section for more details on the SSE trading platforms). Shenzhen Stock Exchange also has a trading platform similar to the Shanghai Stock Exchange fixed-income trading platform.

CSDC also maintains a general bond account in CCDC, to facilitate cross-market transactions and giving exchange bond markets the ability to trade or pledge their positions in fungible debt securities in the CIBM.

The features of the exchange bond market platforms are illustrated below using the example of the SSE. In keeping with the unified guidance approach by CSRC and the use of standards and common practices across the exchange bond market, the features available on SZSE are same or similar to those described here.

1. Shanghai Stock Exchange

The SSE provides the market with technical systems for product trading and trading-related activities across three electronic trading platforms: (i) the matching transaction platform (MTP), (ii) the alternative trading platform (ATP), and (iii) the fixed-income securities platform (FSP). The trading platforms are distinguished in the manner described below. For further details and the specific applicability to bond trading on the MTP, ATP, or FSP, please also refer to the SSE Trading Rules (交易规则).[70]

i. Matching Transaction Platform

This platform provides the market with trading services for stocks, closed-end funds, open-end funds, exchange-traded funds, listed open-ended funds, stock pledged repos, and bond pledged repos. In addition to bond repos, the MTP also facilitates the trading of most bonds except trades in private placement bonds, including the pre-issuance trading of Treasury bonds.

The underlying trading system is called New Generation Trading System, which was launched at the end of 2009.

ii. Alternative Trading Platform

This platform provides the market with trading services for block trading, purchase and redemption of money market funds, exchange-traded funds and listed open-ended funds, agreed repos, and quotation repos.

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[69] For more details, please see http://english.sse.com.cn/tradmembership/tradingsystem/fixedincome/.
[70] See http://english.sse.com.cn/tradmembership/rules/c/3977570.pdf.

iii. Fixed-Income Securities Platform

This platform provides the market with trading services for Treasury bonds, local government bonds, enterprise bonds, corporate bonds, convertible bonds, exchangeable bonds, ABS, bond repos, and private placement bonds. The FSP provides one production (live) environment and one simulation and testing environment which is available to participants 24 hours a day. Please also see the later parts of this section for a description of some of the features of the FSP.

The official name for the FSP is the Integrated Electronic Platform of the Shanghai Stock Exchange for Fixed-Income Securities, which was launched on 25 June 2007. The term "fixed-income securities" refers to debt securities including Treasury bonds, corporate bonds, and ABS. Bond trades on the Integrated Electronic Platform of the Shanghai Stock Exchange for Fixed-Income Securities include inter-dealer trades and dealer–client trades.

For details on the rules of the FSP, please refer to the Interim Provisions on the Trading of the Integrated Electronic Platform of Fixed Income Securities of the Shanghai Stock Exchange (上海证券交易所固定收益证券综合电子平台交易暂行规定).

The trading platforms and their underlying systems are provided and maintained by SSE Technology. SSE Technology provides the actual securities trading services (auction trading, block trading, and quotation-driven trading) and technical support, allowing market participants to engage in business activities such as trading, access to market data, exchange of data, as well as other non-trading activities. Market participants are also able to engage in web-based business activities through business processing platforms such as the bond application system.

Trading on these platforms is governed by the Detailed Implementing Rules for Bond Transactions of the Shanghai Stock Exchange (Trading Rules). Investors participating in bond transactions on the SSE shall designate one SSE member firm in advance as its agent and enter into an agreement for designated trading as well as a client-broker agreement for bond spot transactions and bond repo transactions with such agent.

On the platform, participants are classified into primary dealers and general dealers as exchange members, and indirect participants. Primary dealer refers to a dealer approved by the SSE to provide continuous bilateral quotations and to provide quotations in response to inquiries on the SSE platform; the practice is referred to as market-making (see also Chapter III.M for a detailed description of market participants). Dealer refers to a securities company, a fund management company, a finance company, an insurance asset management company, or any other institution approved by the SSE as a trading participant on the SSE platform.

Dealers shall ensure the truthfulness and accuracy of negotiated trades. Dealers shall be fully liable for any execution order they send without the consent of its clients or not based on a real trading situation. Dealer–client trades refer to trades of debt securities listed on the SSE platform executed through private negotiation between the dealer qualified as a broker and its client.

In order to participate in trading on the FSP, dealers and primary dealers shall sign the Master Agreement on Trading of Fixed-income Securities Platform and comply with the relevant provisions stipulated in the Detailed Implementing Rules for Bond Transactions of the Shanghai Stock Exchange. In the absence of provisions in these rules on any specific subjects, the Listing Rules and other relevant rules of the SSE shall apply.

Primary dealers and general dealers can directly engage in trading, and indirect participants can engage in trades only by using primary dealers or general dealers. The Notice on the Publication and Implementation of the Interim Rules for Trading on the Integrated Electronic Platform of Fixed Income Securities of the Shanghai Stock Exchange applies to trades executed through the FSP.

Some of the FSP features are detailed below.

a. Market Participants

The electronic platform meets the needs of a two-tiered market: dealers can directly participate in the centralized trading and securities companies in their capacity as dealer can trade debt securities with their brokerage clients through private OTC transactions and then send the results to the electronic platform.

b. Trading Hours

Spot trading hours on the MTP for key maturity issues are between 9:30 a.m. and 11:30 a.m., and between 1 p.m. and 3 p.m. (see also section D). After the close of spot trading hours, the overnight outright repo function will automatically lend bonds to primary dealers and freeze relevant funds accordingly. Prior to market opening on the next business day, the system will automatically transfer bonds back to the lender.

The trading hours for outright repo (also on the MTP) are between 9:30 a.m. and 11:30 a.m., and between 1 p.m. and 3 p.m.

c. Trading Models

Trades on the electronic platform are either in the form of quotation trades or price inquiry-based trades. Both the quotation trades and price inquiry-based trades are inter-dealer trades. Quotation trades refer to the trading model where a dealer submits quotations either anonymously or named to the whole market and other dealers accept its quotations. Dealers must specify their bids and offers either as firm quotations or non-firm quotations. Price inquiry-based trades refer to the trading model where a dealer submits price inquiries to multiple (up to 5) other dealers, with the inquirees providing quotations and the inquirer accepting such quotations.

d. Settlement Models

At present, FSP supports a variety of settlement methods, including T+1 real-time gross settlement (for bonds traded only on FSP) and net guaranteed settlement (applicable to bonds traded in both FSP and MTP).

For Treasury bonds, the T+1 net settlement practice is adopted. Here, CSDC serves as a central counterparty (CCP) to guarantee the settlement of spot trades and outright repo trades. Both bonds and cash are settled using the existing net settlement mechanism, whereby trades are netted by the electronic platform and the matching system.

e. Market-Making Mechanism

The market-making system is the most critical component for the efficient functioning of the electronic platform and is at the heart of both market organization and system design. SSE has selected a group of so-called primary dealers from among the dealers as market makers. Primary dealers can provide margin trading and a short sale facility and are required to make continuous bilateral quotations to maintain market liquidity.

f. Information

The electronic platform provides quotation information and execution information on a real-time basis to members and indirect participants.

The quotation information is generated from firm quotations while execution information includes statistics information and trade-by-trade information. Market data is disseminated through the electronic platform as well as the SSE's website and information vendors.

2. Shenzhen Stock Exchange

The SZSE uses the Shenzhen Trading System, the Integrated Negotiating Trade System, and a block trade system for the execution of bond trades. Bonds can be spot traded on the Integrated Negotiated Trading Platform by negotiation and on the Centralized Quotation System by centralized bidding.

C. Trading Methods and Conventions

The methods of trading and trading conventions at the SSE and SZSE do not differ significantly. At the same time, both exchanges are able to determine and enforce their own rules; hence, it is practical to detail some of their individual practices for easy reference and in case of future changes.

Further information on the trading process and practices of the SSE and SZSE markets, as well as on the prescribed trading conventions, may be found on the exchanges' respective websites.

1. Shanghai Stock Exchange

The SSE conducts trading in debt securities across its platforms from 9:15 a.m. to 3 p.m. on any day that is not a weekend or a national holiday in the PRC. The opening session of each trading day operates using the call auction principle in order to determine a suitable opening price and the continuous auction concept is used after the opening session.

Call auction refers to an auction method to determine the price of the order-driven auction market by collecting orders at specified times for the market opening. Continuous auction represents the continuous operation of the auction principle during trading hours and trades are executed whenever a buy and sell order can be matched. The individual trading sessions are illustrated in Table 4.3.

For each trading day, the opening call auction session is from 9:15 a.m. to 9:25 a.m., and the continuous auction sessions are from 9:30 a.m. to 11:30 a.m., and from 1 p.m. to 3 p.m. For block trades, the SSE accepts two types of orders: intent orders and execution orders. Intent orders are accepted from 9:30 a.m. to 11:30 a.m., and from

1 p.m. to 3:30 p.m., and execution orders from 3 p.m. to 3:30 p.m. Repo trading on the MTP in the main session ends at 3:30 p.m.

Table 4.3: Shanghai Stock Exchange Trading Hours

Session	Start Time	End Time
Opening call auction session	9:15 a.m.	9:25 a.m.
Continuous auction sessions	9:30 a.m.	11:30 a.m.
	1 p.m.	3 p.m.
Intent orders for block trades are accepted	9:30 a.m.	11:30 a.m.
	1 p.m.	3:30 p.m.
Execution orders for block trades are accepted	3 p.m.	3:30 p.m.

Note: Trading hours given for the matching transaction platform.
Source: Shanghai Stock Exchange. Schedule. http://english.sse.com.cn/tradmembership/schedule/.

Auction trading is based on the principles of price-time priority and client order priority. All orders for bonds must be limit orders, not market orders.[71] There is no price limit for trades on the MTP, but there is a price cage mechanism. Debt securities trades on the FSP are subject to a daily price limit, with a daily price fluctuation limit of 10%.[72]

During auction trading, an order for bonds may be placed for a face value of CNY1,000, considered as one round lot, or its multiples. The quotation unit for debt securities is CNY100 par value. The tick size of an order for bonds must be CNY0.001. According to the SSE Trading Rules, for a single order for bonds, the intended trading volume shall be no less than 1,000 lots or the transaction value shall be no less than CNY1 million.

Block trading is conducted separately to avoid any overwhelming impact on small trades executed through the auction trading system. A single block trade order for bonds and bond repos other than Treasury bonds shall be no less than 1,000 lots, with the tick size being CNY0.01 and the quotation unit being CNY100 par value, and not be less than a transaction value of CNY1 million. On the other hand, a single block trade order of Treasury bonds shall not be less than 10,000 lots, and a single order shall have a transaction value of not less than CNY10 million.[73] SSE may adjust the minimum limit for block trades according to market conditions.

Spot trades in bonds are carried out either through the auction trading system, the block trading system, or the FSP.[74] Except for convertible bonds, spot trades in bonds are executed on a clean (net) price basis and orders are submitted through securities accounts. Spot trading orders are limited to 10,000 round lots (i.e., representing a face value of CNY10 million).

Transactions on the FSP are usually done in the form of quotation transactions (firm quotation trades) or price inquiry-based transactions. Trades by agreement,

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[71] Limit order is an order to buy or sell a set amount of bonds at a specified price or better. Market order is an order to buy or sell bonds immediately at the best available current price.
[72] For details, see Section 3.4.16 of the SSE Trading Rules (Revised 2018).
[73] For details, see Chapter III, Section 7, Articles 3.7.1 (3) and (4) of the SSE Trading Rules (Revised 2018).
[74] The Detailed Implementing Rules for Bonds Transactions of the Shanghai Stock Exchange apply to spot trades and repos in Treasury bonds, corporate bonds, enterprise bonds, and convertible bonds with warrants executed through the auction trading system.

trades with designated counterparties, and emergency trades may also be executed on the FSP. In the case of quotation transactions, dealers can submit quotations either anonymously or under their real names. In the case of price inquiry-based transactions, dealers must submit quotations under their real names. In the case of quotation transactions, dealers must specify their bids and offers either as firm quotations or non-firm quotations. The SSE will arrange the firm and non-firm quotations in the order of price, respectively.

In the case of firm quotations, transactions will be executed after the quotations are accepted by other dealers and upon verification by the SSE platform (FSP). In the case of non-firm quotations, transactions will be executed upon the verification on the FSP if the quotations are confirmed by the quotation provider within 20 minutes after being accepted by other dealers. Any quotations not confirmed within 20 minutes will be canceled automatically.

In the case of quotation transactions, the volume of each quotation shall be 5,000 round lots (i.e., representing a face value of CNY5 million) or integral multiples thereof and transactions are executed trade by trade on a 5,000 round lots basis. In the case of price inquiry-based transactions, an inquirer can submit price inquiries to five inquirees each time. The quotations provided by the inquirees must be firm quotations. If a quotation provided by an inquiree is accepted by an inquirer within 20 minutes after the price inquiry is submitted, the SSE platform will confirm that a transaction is concluded. If the quotation is not accepted with 20 minutes, both the inquiry and the quotation shall be canceled automatically. Price inquiries can be canceled by the inquirer before they are accepted.

The platform will provide execution results in sequence upon its confirmation of execution of buy and sell orders placed by dealers.

A dealer is not allowed to sell an amount of debt securities that exceeds the balance available for trading in its securities account, or the securities accounts of its clients. For the purpose of market-making, a primary dealer can sell debt securities subject to the limit specified by the SSE. The SSE will determine such limit in consultation with CSDC and can adjust such limit in line with market needs. The debt securities purchased by dealers on a particular day can be sold on the same day. Debt securities specified on a particular day as pending for settlement can be sold on the next trading day.

As stated in the SSE Trading Rules, the closing price on the SSE is based on the trading volume weighted average price of all the trades of the same bonds during the one minute before the last trade (including the last trade) on a given day.[75] In the absence of any trade on a trading day for a particular bond, the previous closing price is taken as the closing price of that day.

2. Shenzhen Stock Exchange

The SZSE conducts both opening and closing call auction sessions, with the main sessions using the continuous auction method between 9:30 a.m. and 2:57 p.m., divided by a lunch break. The individual trading sessions are illustrated in Table 4.4. A trading calendar, including the official holidays for a given calendar year, is available on the SZSE website.[76]

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[75] The Detailed Implementing Rules for Bonds Transactions of the Shanghai Stock Exchange apply to spot trades and repos in Treasury bonds, corporate bonds, enterprise bonds, and convertible bonds with warrants executed through the auction trading system. The Notice on the Publication and Implementation of the Interim Rules for Trading on the Integrated Electronic Platform of Fixed Income Securities of the Shanghai Stock Exchange applies to trades executed through the Electronic Platform (SSE Trading Rules, Chapter 4, Section 1, Article 4.1.3).
[76] See http://www.szse.cn/English/services/trading/calendar/index.html.

As stipulated in the SZSE Trading Rules (Chapter, IV, Section 2, Article 4.2.3), the closing price on the SZSE is determined in the closing call auction session.

Table 4.4: Shenzhen Stock Exchange Trading Hours

Session	Start Time	End Time
Opening call auction session	9:15 a.m.	9:25 a.m.
Continuous auction sessions	9:30 a.m.	11:30 a.m.
	1 p.m.	2:57 p.m.
Closing call auction session	2:57 p.m.	3 p.m.

Source: Shenzhen Stock Exchange. Trading System. http://www.szse.cn/main/en/Products/Trading/TradingSystem/.

During auction trading, an order for bonds is placed at a face value of CNY1,000 or multiples thereof.

At the SZSE, block trading is managed separately from the auction system to refrain from any impact on auction trades executed through the auction trading system. A single block trade of any debt securities shall not be less than a face value of CNY500,000 or not less than a transaction value of CNY500,000.[77] Negotiated block trading may be carried out from 9:15 a.m. to 11:30 a.m., and between 1 p.m. and 3:30 p.m. After-hours fixed price block trading takes place from 3:05 p.m. to 3:30 p.m.

Bond trades are eligible for turnaround trades on T+0 (i.e., bonds bought may be onward sold during the same trading day).

D. Trade Reporting

As a result of being conducted on an exchange platform, trades executed on the exchanges are recorded in the exchange systems by default and are available for review, inspection, and surveillance, as may be necessary. The SSE and SZSE platforms will publicize, via trading terminals and other access points for members and nonmember participants, firm quotation information as well as information on executed trades. In the case of anonymous quotations, the platforms will only disclose the prices and volumes of quotations without naming the relevant dealers. Complete data on recorded trades is also available through the market data services of the exchanges (see section G).

E. Market Monitoring and Surveillance

As a result of the unified approach to guidance for the market and the supervision of market institutions favored by CSRC, market monitoring and surveillance is carried out by SSE and SZSE on their markets in a similar manner. The example of the SSE is used here.

[77] SSE Trading Rules, Chapter III, Section 6, Article 3.6.1 (4).

1. Shanghai Stock Exchange (as an Example)

The SSE monitors transactions on its platform on a real-time basis and deals with unusual trading activities and breaches of laws and regulations pursuant to the relevant regulations of the SSE. Any dealer or primary dealer that breaches these rules will be punished by the SSE pursuant to the relevant regulations, up until the possibility of its dealer or primary dealer status being suspended or terminated.

CSDC may request that the SSE restrict the trading activities of any dealer or primary dealer that commits a material breach of the rules of CSDC.

F. Bond Information Services

Investors are principally able to obtain information on bond and note issuance, issuer details, and underlying financial data through the information disclosure prescriptions in law and regulations. In addition, a number of market institutions may also offer—typically through their websites—comprehensive information on the bond market, ranging from general descriptions of the market and instruments to the detailed provision of prices or yields, yield curves, and other analytical data.

Bond information disclosure is generally classified into (i) information disclosure before issuance, including issued documents, prospectus or bond information memorandum, rating documents, legal opinions, and other contents; (ii) information disclosure after issuance, such as the issuing result, and (iii) information disclosure through the life of the bonds, such as credit rating documents, financial reports, interest and principal payment announcements, major issues announcements, and other such events.

The information disclosure requirements in the exchange bond market may differ from those for the CIBM; at the same time, the information disclosure requirements for different bond types within the same market may also vary. Information disclosed in the exchange bond market is principally available from websites designated by CSRC. For a detailed description of the disclosure requirements in the exchange bond market, please refer to Chapter II.G.

The following section provides an overview of the bond information service available on debt instruments listed and traded in the exchange bond market, without the need to study issuance specific disclosure information.

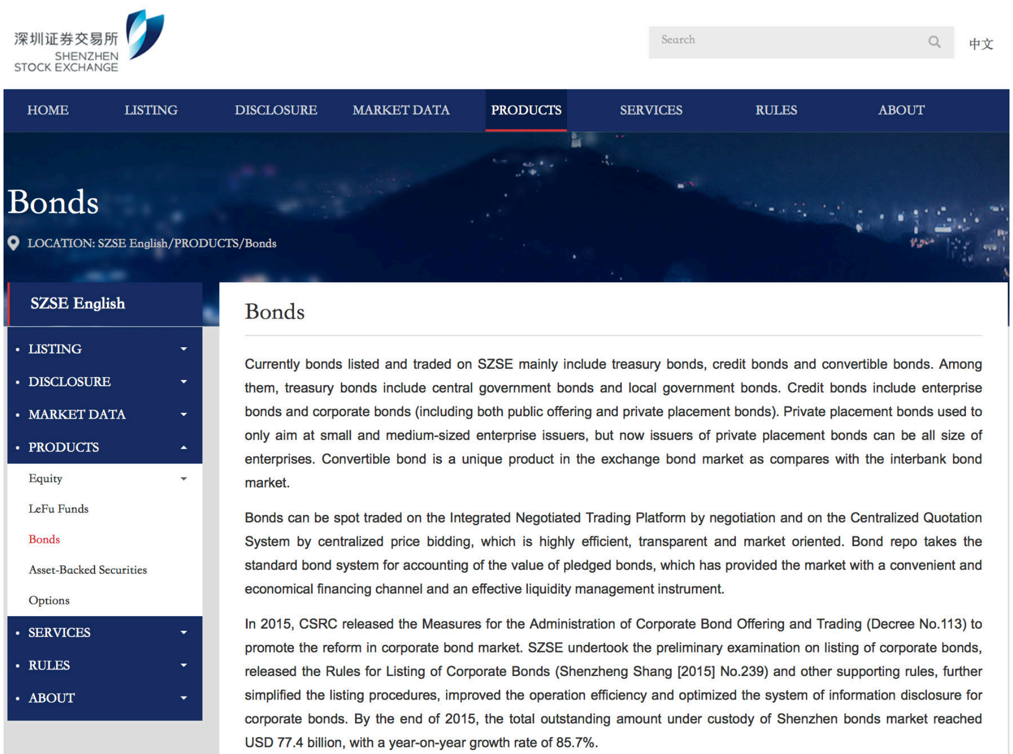
1. Information on Government Bond Issuances

Treasury bonds are listed and traded in the exchange bond market. At the same time, the issuance of Treasury bonds is the responsibility of the MOF. At the time of compilation of this bond market guide, the official website of the MOF was only available in Chinese.[78] In addition, the English website of the PBOC does not contain information on bond issuances of the state or state-owned agencies and enterprises. However, the website offers the latest yield information and yield curves for central government bonds; the yield curve is calculated for the PBOC by CCDC.[79] For more information on yields and yield curves, please also see section H.1.

[78] See www.mof.gov.cn.
[79] See http://www.pbc.gov.cn/english/130727/index.html.

2. Information on the Exchange Websites

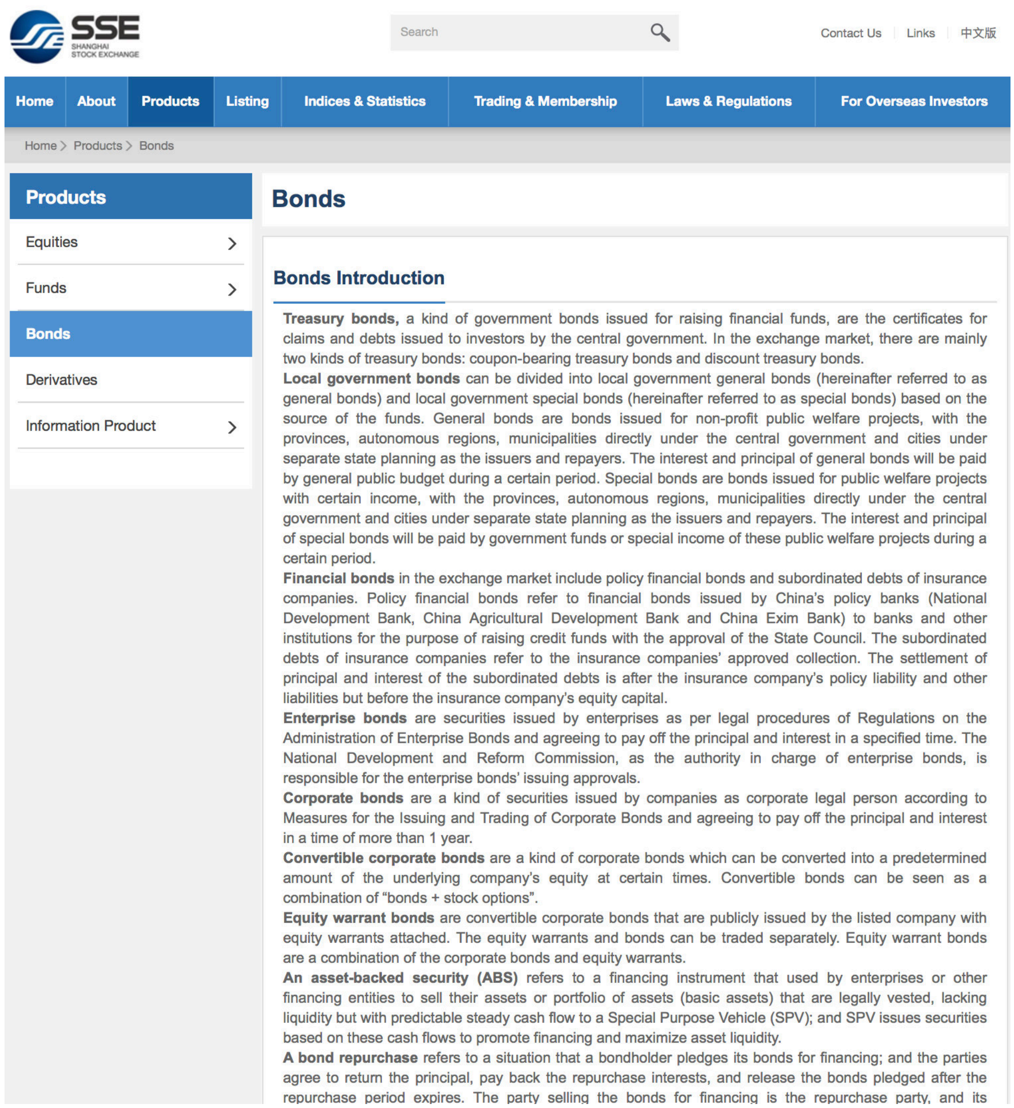
Figure 4.1: Basic Bond Information on the Shenzhen Stock Exchange Website



Source: Shenzhen Stock Exchange. Bonds. http://www.szse.cn/English/products/bonds/.

Basic information on the debt instruments listed on the exchanges is available from the exchange websites. An example for the SZSE is given in Figure 4.1, while an example of information on the SSE can be seen in Figure 4.2. At the same time, the exchanges provide much information on the traded debt securities, quotations, and transactions on their markets, as part of their market data services (see next section).

Figure 4.2: Basic Bond Information on the Shanghai Stock Exchange Website


SSE SHANGHAI STOCK EXCHANGE

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Bonds

Bonds Introduction

Treasury bonds, a kind of government bonds issued for raising financial funds, are the certificates for claims and debts issued to investors by the central government. In the exchange market, there are mainly two kinds of treasury bonds: coupon-bearing treasury bonds and discount treasury bonds.

Local government bonds can be divided into local government general bonds (hereinafter referred to as general bonds) and local government special bonds (hereinafter referred to as special bonds) based on the source of the funds. General bonds are bonds issued for non-profit public welfare projects, with the provinces, autonomous regions, municipalities directly under the central government and cities under separate state planning as the issuers and repayers. The interest and principal of general bonds will be paid by general public budget during a certain period. Special bonds are bonds issued for public welfare projects with certain income, with the provinces, autonomous regions, municipalities directly under the central government and cities under separate state planning as the issuers and repayers. The interest and principal of special bonds will be paid by government funds or special income of these public welfare projects during a certain period.

Financial bonds in the exchange market include policy financial bonds and subordinated debts of insurance companies. Policy financial bonds refer to financial bonds issued by China's policy banks (National Development Bank, China Agricultural Development Bank and China Exim Bank) to banks and other institutions for the purpose of raising credit funds with the approval of the State Council. The subordinated debts of insurance companies refer to the insurance companies' approved collection. The settlement of principal and interest of the subordinated debts is after the insurance company's policy liability and other liabilities but before the insurance company's equity capital.

Enterprise bonds are securities issued by enterprises as per legal procedures of Regulations on the Administration of Enterprise Bonds and agreeing to pay off the principal and interest in a specified time. The National Development and Reform Commission, as the authority in charge of enterprise bonds, is responsible for the enterprise bonds' issuing approvals.

Corporate bonds are a kind of securities issued by companies as corporate legal person according to Measures for the Issuing and Trading of Corporate Bonds and agreeing to pay off the principal and interest in a time of more than 1 year.

Convertible corporate bonds are a kind of corporate bonds which can be converted into a predetermined amount of the underlying company's equity at certain times. Convertible bonds can be seen as a combination of "bonds + stock options".

Equity warrant bonds are convertible corporate bonds that are publicly issued by the listed company with equity warrants attached. The equity warrants and bonds can be traded separately. Equity warrant bonds are a combination of the corporate bonds and equity warrants.

An asset-backed security (ABS) refers to a financing instrument that used by enterprises or other financing entities to sell their assets or portfolio of assets (basic assets) that are legally vested, lacking liquidity but with predictable steady cash flow to a Special Purpose Vehicle (SPV); and SPV issues securities based on these cash flows to promote financing and maximize asset liquidity.

A bond repurchase refers to a situation that a bondholder pledges its bonds for financing; and the parties agree to return the principal, pay back the repurchase interests, and release the bonds pledged after the repurchase period expires. The party selling the bonds for financing is the repurchase party, and its

Source: Shanghai Stock Exchange. Bonds. http://english.sse.com.cn/products/bonds/.

3. Market Data Services

The exchanges or related companies and dedicated information vendors may separately publish general bond information, as well as price and yield data, and the outcome of trading activities through their own proprietary channels. These are often referred to as market data services.

For example, the SSE provides market data on its platforms, including market data for

i. transactions on MTP; the MTP's market data system is responsible for releasing market data on products listed for auction trading, including bonds;
ii. transactions on ATP; the ATP's market data system is responsible for releasing market data on products listed on the platform; the system mainly distributes ATP market data files; and

iii. redistribution, including (a) redistributed market data from the SZSE on SZSE-listed products, and (b) redistributed market data from the Southbound Trading Link Platform on products traded through the Southbound Trading Link.

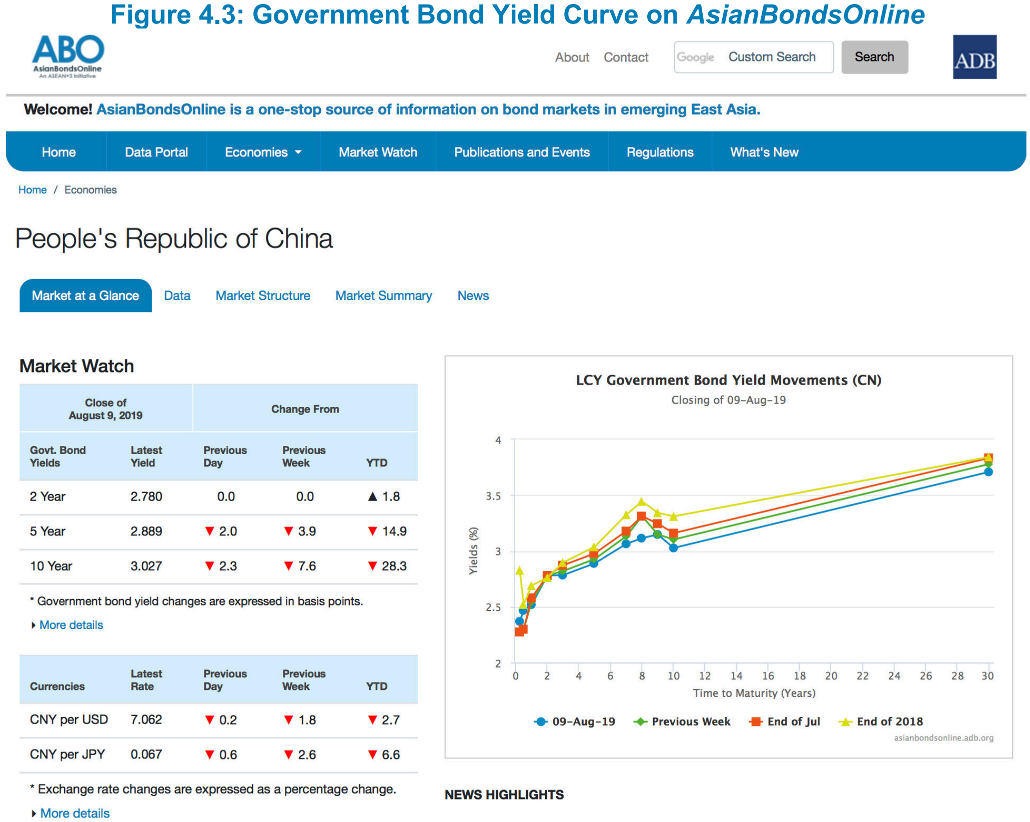
Information on debt instruments traded in the exchange bond market is also available from Bloomberg and other international bond trading platforms.

G. Yields, Yield Curves, and Bond Indexes

Bond yield curves reflect the level of interest rates across different bond tenors in the market and also reflect interest rate differences relative to the credit level of the bonds. Bond yield curves are an important pricing reference for deposit and lending, fixed-income, and other financial products.

1. Yields and Yield Curves

Figure 4.3: Government Bond Yield Curve on *AsianBondsOnline*



Close of August 9, 2019		Change From		
Govt. Bond Yields	Latest Yield	Previous Day	Previous Week	YTD
2 Year	2.780	0.0	0.0	▲ 1.8
5 Year	2.889	▼ 2.0	▼ 3.9	▼ 14.9
10 Year	3.027	▼ 2.3	▼ 7.6	▼ 28.3

* Government bond yield changes are expressed in basis points.
More details

Currencies	Latest Rate	Previous Day	Previous Week	YTD
CNY per USD	7.062	▼ 0.2	▼ 1.8	▼ 2.7
CNY per JPY	0.067	▼ 0.6	▼ 2.6	▼ 6.6

* Exchange rate changes are expressed as a percentage change.
More details

CN = People's Republic of China, CNY = Chinese renminbi, JPY = Japanese yen, LCY = local currency, USD = United States dollar, YTD = year-to-date.
Source: *AsianBondsOnline*. Market at a Glance—People's Republic of China. https://asianbondsonline.adb.org/economy/?economy=CN.

Bond yield curves are available from a number of providers in each segment of the PRC bond market. For the exchange bond market, the key information providers are the SSE and SZSE, their related companies, as well as data vendors.

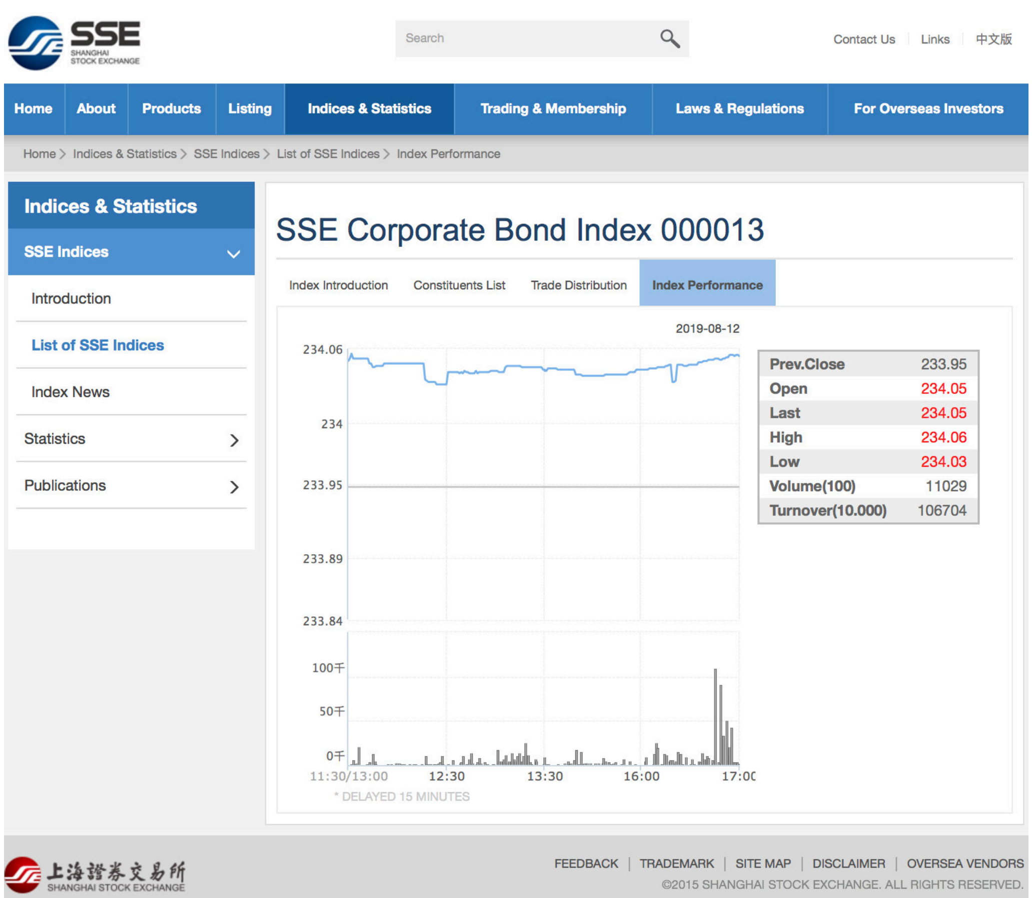
Yields and yield curves for debt instruments traded on the exchanges are available through the trading terminals of exchange members and participants from the respective exchange websites, and via approved data vendors. Yields and yield curves on bonds listed on the exchanges are also available from the international trading systems with connection to the exchanges.

Information on yields, yield curves, as well as price data, particularly on government bonds, is also available from the *AsianBondsOnline* website through an initiative of ASEAN+3 (Figure 4.3).

2. Bond Indexes in the Exchange Bond Market

a. Shanghai Stock Exchange

Figure 4.4: Bond Index Information on the Shanghai Stock Exchange Website



SSE = Shanghai Stock Exchange.
Source: SSE. Indices and Statistics—Index Performance.
http://english.sse.com.cn/indices/indices/list/basic/index.shtml?COMPANY_CODE=000013&INDEX_Code=000013.

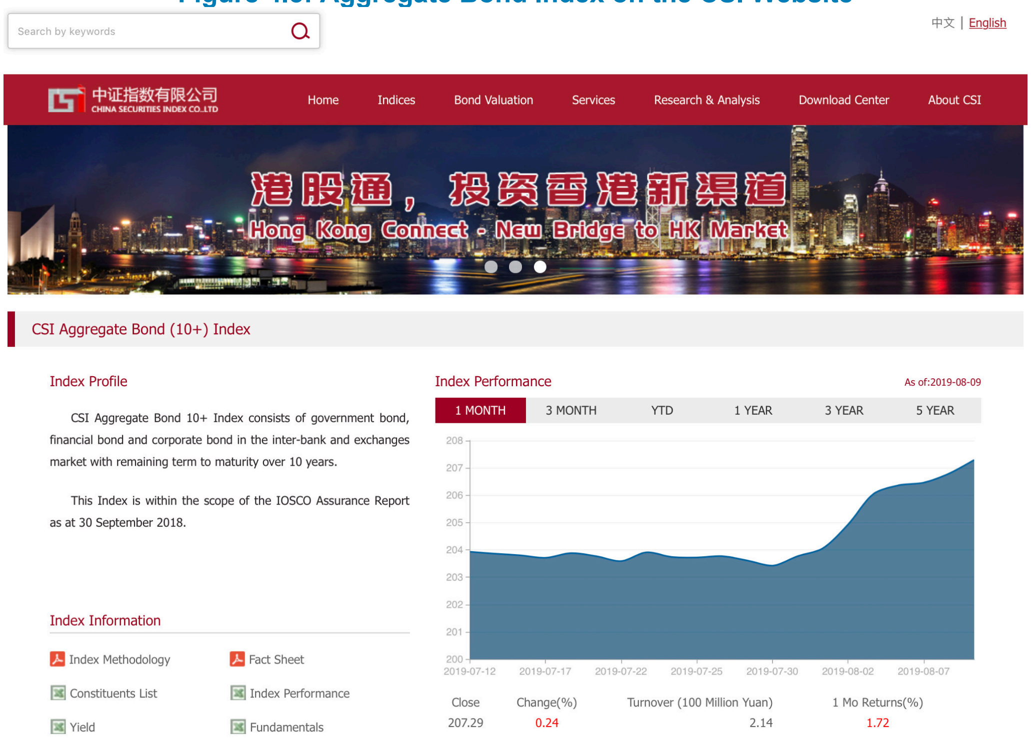
The SSE calculates and provides to the market a series of 24 bond indexes for the exchange bond market. Among the indexes available are government bond and corporate bond indexes, as well as specialized indexes for green bonds, specific tenors, and bond categories. For example, the SSE Enterprise Bond 30 Index—the PRC's first constituent bond index published on a real-time basis—selects 30 of the highest-quality, largest, and most liquid enterprise bonds.

The list of indexes, as well as background on their constituent instruments, calculation, and performance are available in detail from the SSE website. Figure 4.4 gives an overview of the available information on each index.

b. China Securities Index Co., Ltd.

CSI is a joint venture between the SSE and SZSE that specializes in the creation and management of indexes and index-related services. CSI is dedicated to serving the capital market and promoting financial innovation relying on the information and technical advantages of the two exchanges. CSI has created its own series of indexes and supports exchange indices and customized indexes.

Figure 4.5: Aggregate Bond Index on the CSI Website



Source: China Securities Index Co., Ltd (CSI). CSI Aggregate Bond Index. http://www.csindex.com.cn/en/indices/index-detail/H11005.

Currently, as the owner and administrator of the CSI 300 Index, which is the most recognized index in the PRC and will become the underlying index of the forthcoming Chinese Index Future, CSI has launched a series of other indices covering a range of characteristics including size, sector, bond, style, and other customized measures.

As the first bond index designed and launched by CSI, the CSI Aggregate Bond Index (Figure 4.5) covers both the exchange bond market and the CIBM. The index consists of government bonds, financial bonds, and corporate bonds in the exchange bond market and the CIBM. The end-of-day closing index and related bond indicators are calculated and disseminated each day by CSI, which provides analysis tools and benchmarks for bond investors. Model pricing is applied in case of abnormal prices or the absence of prices, which can better reflect the real value and yield character of bonds.

The CSI Aggregate Bond Index series also includes four different term-to-maturity indexes and three credit classification indexes. Debt securities with terms-to-maturity of 1–3 years, 3–7 years, 7–10 years, and more than 10 years are selected as constituents of the corresponding subindices of the CSI Aggregate Bond Index. Moreover, constituent bonds of the CSI Aggregate Bond Index are allocated to the corresponding subindices, according to their classification as government bonds, financial bonds, or corporate bonds.

Further information on CSI is contained in the CSI information service handbook, which is available for download from the CSI website.[80]

H. Repo Market

There are two repo market segments in the PRC: the stock exchange repo market and the inter-bank bond repo market, each with different structures, characteristics, terminology, and rules.

In the inter-bank bond repo market, transactions are conducted through the over-the-counter method as private one-to-one negotiations between institutional participants, while in the exchange bond market the exchanges not only facilitate transactions but also CSDC acts as the central counterparty to all repo sellers and repo buyers. The focus in this Bond Market Guide is the repo business in the exchange bond market.

According to the SSE Trading Rules (Revised 2018) Chapter III, Section 8 3.8.2, a bond pledged repo is a short-term, CNY-denominated pledge financing transaction in which a bondholder pledges a bond and calculates the number of standard vouchers calculated by the standard bond conversion ratio (discount rate) as the financing amount. The parties agree to expire the repurchase period after returning funds and releasing the pledge transaction.

In bond repurchase transactions, the party that borrows funds and pledges bonds is called the repo party, and the party that lends and holds the pledge right of bonds is called the reverse repo party. The repo represents a financing activity where the repo party pledges the bonds to the reverse repo party, and at the same time the two parties agree that the repo party will return to the reverse repo party the amount of funds at the appointed repo interest rate, and the reverse repo party will return the pledged bonds to the repo party at a future date determined by the two parties.

In contrast, a buyout or outright repo is a contract for the sale of bonds or notes with a commitment by the initial seller (repo-seller, effectively a money borrower) to buy back the same bonds from the initial buyer (repo-buyer, effectively a money lender) at a pre-agreed specific price on a pre-agreed designated future date after a pre-agreed fixed period of time.

1. Stock Exchange Repo Market Overview

In 2016, stock exchange repo transactions represented 27% of the total market repo volume in the PRC. Repo transactions in the exchange bond markets are supervised by CSRC. Among the stock exchanges, the SSE has the dominant market share of stock exchange repo transactions. For example, SSE pledged repo transactions can be entered into between 1 p.m. and 3:30 p.m. on the MTP platform, and the bilateral repurchase and tripartite repurchase will be from 1 p.m. to 3:15 p.m. (see also section C in this chapter for more details on trading hours and information on trading platforms of the exchanges).

The stock exchange pledged repo model is unique in that not only do the exchanges facilitate the transactions but also CSDC acts as the central counterparty to all repo

[80] See http://www.csindex.com.cn/uploads/services/data/files/en/data_service_en.pdf.

buyers and sellers. The concept of “one execution and two clearings and settlements” is adopted in bond repo transactions. The clearing and settlement of bond repo transactions are governed by the relevant regulations of CSDC.

Yields in the exchange bond repo market are driven by supply and demand; however, stock exchange repo interest rates or yields are more volatile than those in the Inter-Bank Repo Market, due to the lack of a corresponding function to PBOC’s open market operation, which has a moderating influence on supply and demand in its market.

The stock exchanges provide three formats of bond repos, namely the standardized repo, bilateral repo, and triparty repo. Standardized bond repos are conducted as collateral repos, while bilateral repos can be traded as either a buyout repo or a collateral repo. On the SSE, in terms of market share, the bilateral repo and triparty repo are smaller, accounting for less than 1% of the repo volume.

Both SSE and SZSE offers standardized repo products. Its standard bond is not an actual bond, but a calculated maximum quota converted from the collateral bonds to control the amount of repo transactions of a bond lender. According to the Measures for the Administration of Conversion Rate of Standard Securities released by CSDC, the standard bond is the calculated amount of collateral bonds’ par value discounted at a conversion rate, which is codetermined by recent average price, bond credit rating, price volatility, and average repo rate, among other factors. Standardized repo transactions are netted through CSDC as the CCP, and the orders are matched anonymously.

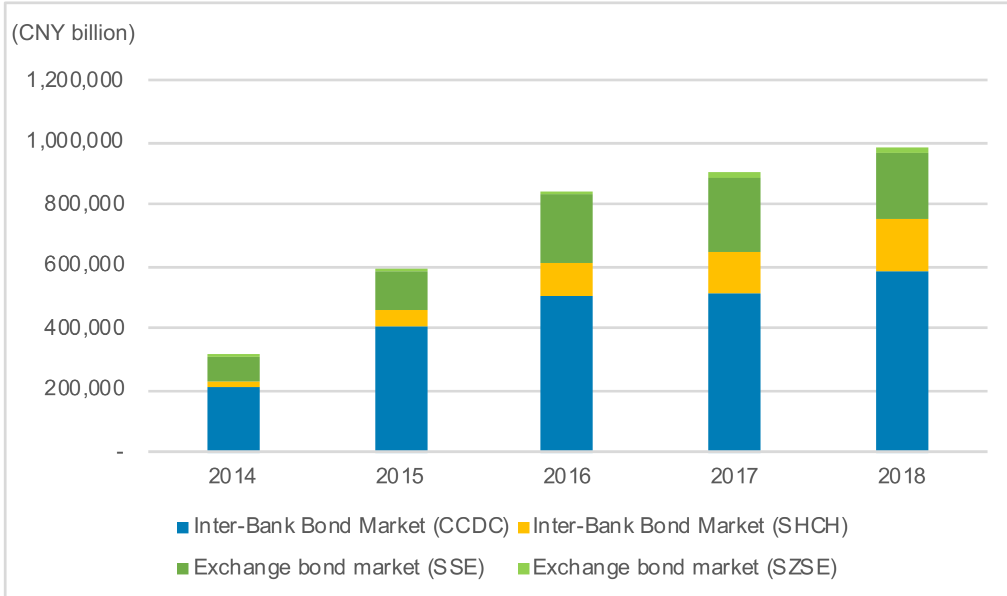
The “standardized bond” is used to measure the amount of loan that can be granted in a standardized repo by applying the applicable conversion factor to the different bond products. Under the netting arrangement, CSDC, acting as the CCP, carries out the guaranteed settlement of standardized repos to segregate risks. Standardized repos are traded through the call auction system and orders are matched strictly pursuant to the principle of price-time priority (see also section C in this chapter), with the repo interest rate determined by demand and supply. Price formation is entirely market driven.

Bilateral repos are entered into by two parties as either a collateral repo or buyout repo, upon independent negotiation. As a bilateral repo allows for renewal and netting upon renewal, a third party may substitute for the existing reverse repurchasing party upon renewal of the bilateral repo. A bilateral repo is settled between two clearing participants and its settlement is not guaranteed by CSDC and carried out on a trade-by-trade basis. The risk specific to bilateral repos is the counterparty risk while the credit risk of standardized repos is mitigated by the netting agreement with CSDC as CCP.

2. Repo Market Size

For general orientation, Figure 4.6 gives an overview of the size and composition of the repo market in the PRC. As mentioned, the repo market is divided into the exchange bond repo market and a segment within the CIBM. Within the CIBM segment, repo transactions for instruments at the different depositories for the CIBM may be carried out in a different manner. Please refer to the Bond Market Guide for the Inter-Bank Bond Market in the PRC for more information on the CIBM repo market.

Figure 4.6: Bond Repo Transaction Volume by Bond Market Segment



CCDC = China Central Depository & Clearing Co., Ltd.; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd.; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Source: CCDC Bond Market Statistical Analysis Report (债券市场统计分析报告), 2013–2018 (市场交易结算情况); SSE Fact Book 2016, 2017; SSE. Yearly Bond Data Overview (年度债券概况). http://www.sse.com.cn/market/bonddata/overview/yearly/; SZSE Fact Book 2013–2017. http://bond.szse.cn/marketdata/statistics/overview/mo/index.html.

3. Acceptance of Standards

Considered a global standard, the Global Master Repurchase Agreement was referenced for the practices in the exchange bond repo market. However, since repo trading in the exchange bond market is conducted in the public auction market with CSDC as CCP, no specific repo-related documentation needs to be signed between counterparties. At the same time, members and participants sign client agreements between them and the investors whom they service.

4. Specific Repo Practices in the Exchange Bond Market

a. Type of Repo

Under the terminology used in the SSE and SZSE Trading Rules, "pledged repo" is defined as a collateral repo transaction and "outright repo" as a buyout repo transaction.

A collateral repo trade refers to a bond trade in which at the time the bondholder pledges its bonds as collateral in exchange for a cash loan, the two parties agree to return the cash and release the bonds pledged as collateral at the maturity of the repo. A buyout repo trade refers to a bond trade in which at the time the bond holder sells its bonds to the buyer, the two parties agree that the seller will buy back the same quantity of the same bonds at a specified price on a predetermined date.

Since 2009, the pledged repo type represents close to 100% of all repo transactions on the SSE and SZSE.

b. Size and Tenor

On the SSE, an order for a bond collateral repo and standardized repo shall be placed at a face value of CNY100,000 or multiples thereof, limited to a maximum transaction value per order of CNY10 million. An order for bond buyout repos shall be placed at a face value of CNY1 million or multiples thereof, with a maximum transaction value per order of CNY50 million.

On the SZSE, an order for a bond collateral repo shall be placed at face value of CNY1,000 or multiples thereof, with the maximum quantity of one order to be less than CNY100 million.

Standardized repos have a standardized term. For example, the SSE offers 9 standardized repo products, with standardized terms of 1 day, 2 days, 3 days, 4 days, 7 days, 14 days, 28 days, 91 days, and 182 days. The term of a bilateral repo is determined by the trading counterparties and ranges from 1 day to 365 days.

c. Eligible Debt Securities as Collateral

In principle, debt securities that can be used for bilateral repo can be any debt securities and ABS that are listed, traded, or transferred on the stock exchanges, whether they are publicly offered or not, and other products recognized by the stock exchanges. In practice, corporate bonds are most often used as collateral.

On the SZSE, convertible bonds and exchangeable bonds cannot be used as collateral for bilateral repo, due to their underlying character. In fact, corporate bonds and SME private placement corporate bond are mainly used as collateral for bilateral repos on the SZSE.

d. Market Participants

Investment funds, insurance companies, and securities companies are the major exchange repo market participants acting as repo sellers (collateral providers and cash borrowers), while money market funds with excess cash to invest are typical participants as repo buyers (cash providers).

Any market participants that meet the investor suitability requirements may participate in bilateral repo trades.

e. Market Access and Participation of Foreign Investors

As at the time of compilation of this bond market guide, foreign investors such as QFIIs or RQFIIs were not able to participate in exchange bond repo transactions, since repo transactions had not been specifically mentioned in the list of permissible investment activities in the regulations governing the QFII or RQFII schemes (see also Chapter II.N, for more information on the QFII and RQFII concepts).

I. Securities Lending and Borrowing

At present, bilateral bond lending and borrowing only occurs in the CIBM.

At the same time, a practice called debt securities lending is practiced in the exchange bond market. Debt securities lending refers to a certain type of contract signed through bilateral negotiation, in which counterparties reach an agreement whereby the borrower pledges a certain amount of self-owned bonds as collateral to borrow specific bonds from the lender and promises to return the specific bonds and get back the pledged bonds at an agreed future date. Debt securities lending was first launched on the SSE in March 2015, following the publication of the SSE Notice on the Pilot Program of Debt Securities Lending Business, and is currently available on the SSE Bond Business Platform. To create a contract, counterparties need to confirm key elements of the contract and submit those via an online application. After the acceptance of the application by the exchange, the SSE will relay the agreed transaction features to CSDC via a data exchange mechanism. CSDC will accordingly arrange settlement and register the pledge of the bonds on a T+2 basis. The outstanding balance of debt securities lending on the SSE amounted to as much as CNY21 billion during the course of 2018.

J. Interest Rate and Fixed-Income Futures

The China Financial Futures Exchange (CFFEX) is a demutualized exchange dedicated to the trading, clearing, and settlement of financial futures, options, and other derivatives. On 8 September 2006, with the approval of the State Council and the CSRC, CFFEX was established in Shanghai by the Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, SSE, and SZSE. CFFEX is an exchange-style SRO under the supervision of CSRC.

CFFEX' main functions include organizing and arranging the listing, trading, clearing, settlement, and delivery of financial futures and other derivatives; formulating business rules; conducting self-management; disseminating market-trading information; providing technology, venues, and facility services; and other functions approved by CSRC.[81]

In relation to interest rate futures or other hedging instruments for the fixed-income market, CFFEX currently trades contracts for 2-year, 5-year, and 10-year Treasury bond futures. Figure 4.7 gives an illustration of the contract details, using the example of the 2-year Treasury bond futures contract. The contract employs physical delivery.

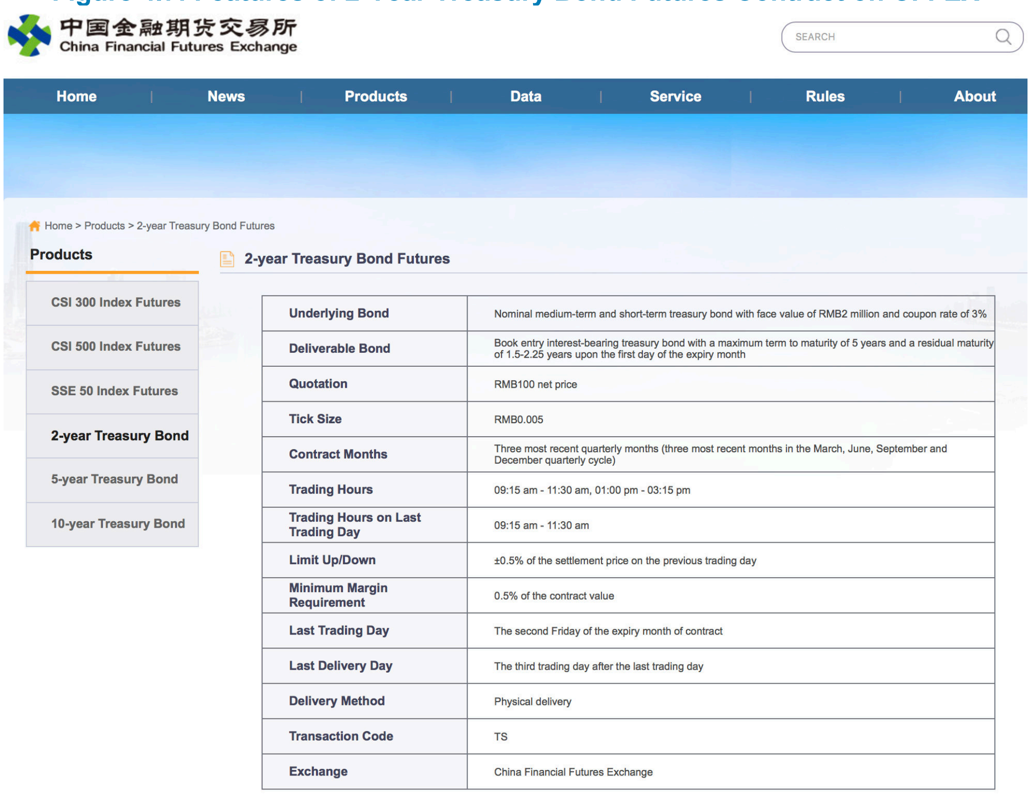
Transactions in Treasury bond futures are subject to the respective business rules issued by CFFEX, such as the Detailed Trading Rules of China Financial Futures Exchange for 2-Year Treasury Bond Futures Contract (as revised from time to time); the version that was current at the time of the compilation of this bond market guide was adopted on 6 August 2018 and first amended on 28 December 2018.[82]

CFFEX applies a hierarchical member clearing system, with members being classified into clearing members and trading members. Clearing members are further categorized, by scope of business, into trading clearing members, full-clearing members, and special clearing members. Trading members may conduct futures trading but are not eligible to carry out clearing activities. Members of CFFEX are futures companies with business qualifications for financial futures brokerage services,

[81] The description of activities has been adopted from the CFFEX website.
[82] The CFFEX business rules are available in English at http://www.cffex.com.cn/en_new/ywgz/.

or other financial institutions that meet the eligibility criteria in the CFFEX Membership Rules.[83] Additional participants are the margin holding banks with which members deposit the required initial and variable cash margin amounts for their trading positions.

Figure 4.7: Features of 2-Year Treasury Bond Futures Contract on CFFEX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Products

- CSI 300 Index Futures
- CSI 500 Index Futures
- SSE 50 Index Futures
- 2-year Treasury Bond
- 5-year Treasury Bond
- 10-year Treasury Bond

2-year Treasury Bond Futures

Underlying Bond	Nominal medium-term and short-term treasury bond with face value of RMB2 million and coupon rate of 3%
Deliverable Bond	Book entry interest-bearing treasury bond with a maximum term to maturity of 5 years and a residual maturity of 1.5-2.25 years upon the first day of the expiry month
Quotation	RMB100 net price
Tick Size	RMB0.005
Contract Months	Three most recent quarterly months (three most recent months in the March, June, September and December quarterly cycle)
Trading Hours	09:15 am - 11:30 am, 01:00 pm - 03:15 pm
Trading Hours on Last Trading Day	09:15 am - 11:30 am
Limit Up/Down	±0.5% of the settlement price on the previous trading day
Minimum Margin Requirement	0.5% of the contract value
Last Trading Day	The second Friday of the expiry month of contract
Last Delivery Day	The third trading day after the last trading day
Delivery Method	Physical delivery
Transaction Code	TS
Exchange	China Financial Futures Exchange

CFFEX = China Financial Futures Exchange; CSI = China Securities Index Co., Ltd.; RMB = Chinese renminbi; SSE = Shanghai Stock Exchange.
Source: CFFEX. 2-Year Treasury Bond Futures. http://www.cffex.com.cn/en_new/2ts.html.

With a series of rules in place such as evaluating investor suitability, coordinating cross-market regulation, and monitoring abnormal trading activities, CFFEX strives to maintain the orderly functioning of the financial market; safeguard market openness, fairness, and impartiality; protect the lawful rights and interests of investors, especially SME investors; and prevent systemic risks.

[83] CFFEX. Measures of China Financial Futures Exchange on Membership Management. http://www.cffex.com.cn/en_new/ywgz/20101115/16968.html.

V

Description of the Securities Settlement System

This chapter, as included in the original ASEAN+3 Bond Market Guide published in 2012, has been discontinued in favor of a more comprehensive and updated description in the Phase 2 Report of ABMF Sub-Forum 2 (SF2), *Information on Transaction Flows and Settlement Infrastructures*, dated 13 June 2014. The SF2 Phase 2 Report contains information on the post-trade features of the bond market in the PRC, its market infrastructure and settlement systems, interest payment and redemption practices, as well as market and message standards (pp. 102–115). In addition, the SF2 Phase 2 Report contains detailed infrastructure and transaction flow diagrams for the bond market in the PRC (pp. 345–383).

The SF2 report is available on a dedicated ADB website, as well as through a number of mirror sites.[84]

[84] See http://www.adb.org/publications/asean3-information-transaction-flows-and-settlement-infrastructures.

VI

Fees and Taxation in the Exchange Bond Market

This chapter details the typical costs incurred by issuers and investors in the exchange bond market in the PRC.

For ease of reference, the descriptions of the types of costs are given in the context of the actions taken by issuers or investors (as explained in this document) and follow the lifecycle of a bond or note in the exchange bond market.

A. Costs Associated with Debt Securities Issuance

These costs refer to those charges incurred as a result of debt securities issuance, as charged by regulatory authorities, market institutions, and market intermediaries. Other costs will or may be incurred by the issuer through services obtained from market intermediates and supporting entities, such as law firms and accounting or audit firms.

The costs for the issuance of Panda bonds in the exchange bond market are commensurate with the typical costs shown in this chapter. Principally, foreign issuers do not incur other charges in the market when compared to domestic issuers, with the notable exception being the credit rating process (see also section 5).

1. Application for Issuance Approval to China Securities Regulatory Commission (Public Offerings)

Corporate bonds issued via public offerings in the exchange bond market are subject to the approval of CSRC. Please see Chapter II.F for a comprehensive description of the application and approval process for these issuance types.

CSRC does not charge any fees for the review of the issuance application and its approval.

2. Examination of Issuance Documentation by the Exchanges (Public Offerings to Qualified Investors only)

Corporate bonds issued via public offerings in the exchange bond market are subject to the approval of CSRC. In the event that the issuer wishes to issue debt securities via a public offering to Qualified Investors only, the exchange that the issuer has chosen to list on will examine the issuance application and supporting documents on behalf of CSRC and provide its opinion to CSRC for final consent.

In the case of a public offering to Qualified Investors only, the exchanges do not levy fees for the examination process.

3. Examination of Issuance Documentation by the Exchanges (Non-Public [Private] Placement to Qualified Investors)

Corporate bonds issued via non-public (private) placements are not subject to the approval of CSRC. The issuer needs to file a report after issuance with the SAC as the market SRO for the exchange bond market. Please see Chapter II.F for a comprehensive description of the application and approval process for this issuance type.

The exchange will examine the issuance documentation together with the listing application by the issuer and provide a no-objection letter in case of a listing approval, in which case listing fees may apply (see also section B for more information). The SAC does not charge a fee for the receiving and filing of the issuance report.

4. Underwriter Fee (Mandatory for Public Offering)

If an issuer intends to issue bonds via a public offering, an underwriter needs to be appointed. In the exchange bond market, underwriters are securities companies that are members of the respective exchange on which the bond will be listed upon issuance. Please see Chapter III.E for more information on the underwriting of bonds in the exchange bond market.

An underwriter will charge a fee commensurate with the effort and the risk of a firm commitment, standby commitment, or agency underwriting service for the debt securities of the issuer. The fee is likely to follow established market practice and may be subject to negotiations between the issuer and underwriter.

5. Initial Rating Fee (Mandatory for Public Offering)

Issuers wishing to issue their bonds via a public offering need to have their bonds rated by a domestic CRA. The rating is to be prominently featured in the public offer prospectus of the debt securities to be issued. In turn, Panda bonds (those issued by a foreign entity) will need to be rated by at least two CRAs, with at least one of them a domestic CRA. Please see Chapter III.O for more details on the credit rating requirements in the exchange bond market.

Rating agencies will charge an initial rating fee commensurate with their expected work to determine such credit rating. Given that the bond market in the PRC features a number of bond rating agencies, the initial rating fee is likely subject to market practices and commercial considerations.

6. Bond Trustee Fee (Mandatory for Public Offering)

In the event of a planned issuance of bonds via a public offering, the issuer will need to appoint a bond trustee approved by CSRC. At the same time, exchange regulations require the appointment of a bond trustee for non-public (private) placements as well. Please see Chapter III.S for more information on the bond trustee concept in the exchange bond market.

Since the role and obligations of the bond trustee are set in regulations, it should be expected that fee levels follow market practice. The actual fees may be subject to negotiations between the bond trustee and issuer.

7. Initial Registration of Debt Securities at the Depository

CSDC is the single central securities depository for the exchange market, including for the exchange bond market. As such, debt securities are required to be registered with CSDC to be eligible to be listed and traded on the exchanges.

CSDC charges its fees according to a certain proportion of the face value of the bond (Table 6.1). There is no minimum amount or upper limit for the amount to be charged. At the same time, due to product innovation and the complexity of some instruments, charging standards are constantly being reviewed by CSRC in line with market and business needs.

Table 6.1: Securities Registration Fees for Bonds at CSDC

Type of Debt Securities	Tenor	Fee Basis	Fee Amount
Corporate bonds, enterprise bonds, convertible corporate bonds, detachable convertible corporate bonds, private placement bonds, policy financial bonds, government-backed bonds, asset-backed special schemes	Up to 1 year	Registered amount	0.01
	1 year to 5 years	Registered amount	0.02
	5 years to 10 years	Registered amount	0.05
	Above 10 years	Registered amount	0.06
Convertible bonds	All	Face value	0.1

Notes: Should an issuer be listed on the Chinex market of the Shenzhen Stock Exchange (SZSE), the applicable fee amount will be halved. The above fee amounts include value-added tax.
Source: ABMF SF1 compilation based on China Securities Depository and Clearing Co., Ltd. and the SZSE.

B. Listing Fees for Bonds

Debt securities issued in the exchange bond market may be listed on the SSE or SZSE, depending on the nature of the issuer or instrument, or according to preference. Listing on the exchanges is subject to eligibility criteria for the issuer and the issuance, as well as initial and continuous disclosure requirements. Please see Chapter III.I for a comprehensive description of the listing process.

In principle, the exchanges distinguish between an initial listing fee and an annual listing fee. The next two sections detail the applicable listing fees for the SSE and SZSE, respectively.

1. Listing Fees for Bonds on the Shanghai Stock Exchange

Table 6.2 gives an overview of the listing fees on the SSE. To promote the listing of bonds on the SSE, the exchange currently waives all bond listing fees. Further details and the latest fee levels applicable to bonds are available from the SSE website.[85]

[85] Listing, trading, and other fees charged by the SSE may be found at http://english.sse.com.cn/tradmembership/tradingfees/.

Table 6.2: Listing Fees for Bonds on the Shanghai Stock Exchange

Category		Fee Item	Fee Standard	Payer and Receiver
Listing	Cash bond (including ABS)	Initial listing fee	Temporarily no charge	Paid by issuers to the SSE
		Annual listing fee	Temporarily no charge	

Note: Fee amounts, if so charged, will include value-added tax.
ABS = asset-backed securities, SSE = Shanghai Stock Exchange.
Source: SSE.

2. Listing Fees for Bonds on the Shenzhen Stock Exchange

Table 6.3 gives an overview of the listing fees on the SZSE. To promote the listing of bonds on the SZSE, the exchange currently waives all bond listing fees. Further details and the latest fee levels applicable to bonds are available from the SZSE website.[86]

Table 6.3: Listing Fees for Bonds on the Shenzhen Stock Exchange

Category		Fee Item	Fee Standard	Payer and Receiver
Listing	Cash bond (including ABS)	Initial listing fee	Temporarily no charge	Paid by issuers to SZSE
		Annual listing fee	Temporarily no charge	

Note: Fee amounts, if so charged, will include value-added tax.
ABS = asset-backed securities, SZSE = Shenzhen Stock Exchange.
Source: SZSE.

C. Ongoing Costs for Issuers of Corporate Bonds

Once an issuer has issued bonds and listed them on exchange, the issuer will incur some recurring costs throughout the lifecycle of the bonds. Costs may include the service provision of a paying agent, CRA, or bond trustee.

1. Interest Payment, Redemption, and Repurchase Processing Fees

CSDC acts in the capacity of a paying agent for issuers of debt securities in the exchange bond market. CSDC applies a so-called payout fee for the distribution of these interest payments from the issuer to its account holders (Table 6.4). The fee information is provided on the basis of applicable conditions for the SZSE securities market.

[86] Listing, trading, and other fees charged by SZSE may be found at http://www.szse.cn/marketServices/deal/payFees/index.html.

Table 6.4: Payout Fee for Debt Securities at CSDC

Type of Debt Securities	Fee Basis	Fee Amount
Corporate bonds, enterprise bonds, convertible corporate bonds, detachable convertible corporate bonds, private placement bonds, policy financial bonds, government-backed bonds, and asset-backed special schemes	Payment amount	0.05
Convertible bonds	Payment amount	0.5

Note: The above fee amounts include value-added tax.
Source: ABMF SF1 compilation based on the China Securities Depository and Clearing Co., Ltd. (CSDC) and Shenzhen Stock Exchange.

CSDC also applies a redemption fee upon the final payment from the issuer to the bondholders (Table 6.5). The same fee also applies should the issuer buy back a defined portion of the outstanding amount of the debt securities; in such a case, the fee is referred to as repurchase processing fee.

Table 6.5: Redemption Fee for Debt Securities at CSDC

Type of Debt Securities	Fee Basis	Fee Amount
Corporate bonds, enterprise bonds, convertible corporate bonds, detachable convertible corporate bonds, private placement bonds, policy financial bonds, government-backed bonds, and asset-backed special schemes	Redemption or repurchase amount	0.05
Convertible bonds	Redemption or repurchase amount	0.5

Note: The above fee amounts include value-added tax.
Source: ABMF SF1 compilation based on the China Securities Depository and Clearing Co., Ltd. (CSDC) and Shenzhen Stock Exchange.

2. (Annual) Credit Rating Fee

Bonds issued via a public offering by domestic issuers or those issued as Panda bonds by nonresidents will need to be rated upon issuance. In addition, such bonds are required to be monitored by CRAs during the tenor of the bonds. The review and update of the credit rating by the CRAs results in a fee to the issuer, typically on an annual basis. This rating fee is expected to be subject to negotiation between the CRA and the issuer; fee scales follow market practice.

Please also see Chapter III.O for details on the credit rating requirements in the exchange bond market.

3. Bond Trustee Fee

If a bond trustee is appointed for a bond in the exchange bond market, this bond trustee will perform its duties throughout the lifecycle of the bond. As a result, the bond trustee will bill for its services, typically on an annual basis, until the bond matures. The cost is to be borne by the issuer. Please also see Chapter III.S for more details on bond trustees.

Since the appointment of a bond trustee is mandatory for many issuances in the exchange bond market, the bond trustee fee is expected to be determined competitively and possibly be subject to negotiation between the issuer and the bond trustee.

D. Costs for Deposit and Withdrawal of Debt Securities

The exchange bond market is completely dematerialized, and no physical securities certificates exist; all debt securities are issued on a book-entry basis only. Holders of debt securities in the exchange bond market must deposit all their debt securities with CSDC in book-entry form upon the debt securities being issued and listed for them to be tradable.

As such, the deposit of debt securities certificates at a later stage or a withdrawal of securities in physical form is not possible.

E. Costs for Account Maintenance and Safekeeping

CSDC applies fees for the opening of securities accounts in its system. At the time of compilation of this bond market guide, CSDC did not charge an account maintenance fee.

1. Account Opening Fee

Account opening charges apply, but the fee level may depend on the nature of the investor or account agencies opening the account. For example, CSDC charges a fee of CNY400 for the opening of a securities account for a QFII or RQFII, which covers the review and processing of the account opening documentation and the technical set-up in the CSDC book-entry system. The account opening fee for an individual investor is CNY40.

Pursuant to the CSDC Rules on the Management of Securities Accounts, account holders or their agencies (securities companies or commercial banks as custodians) are required to settle expenses incurred during the account opening process. This may range from the facilitation of account opening documentation (including shipping charges) to the required verification of signatures or notarization of documents to be submitted. As a result, the account opening fee is charged by the account opening agency to the investor or account holder, and the account opening agency retains half of the applicable fee.

2. Safekeeping Fee

At present, CSDC does not charge any safekeeping fees.

F. Costs Associated with Trading Bonds on the Exchanges

Securities companies and nonmember participants charge brokerage fees to their clients. The exchanges charge trading fees and regulatory levies for trades executed on their platforms, which may be passed on to investors by the members or participants as out-of-pocket expenses. Fee details and specific considerations are explained in the following sections.

1. Shanghai Stock Exchange

The SSE collects trading fees based on the trade amount from both seller and buyer. The trading fee rate is equivalent to CNY1 per million of face value, with a ceiling of CNY100 per transaction. Details on individual trading-related charges are shown in Table 6.6.

Table 6.6: Shanghai Stock Exchange Trading Fees

Category		Fee Item	Fee Standard	Payer and Receiver
Trading	Cash bond (including ABS)	Handling fee	0.0001% of trading value (CNY100 cap per trade)	Paid by SSE members to the SSE
	Bond pledged repo	Handling fee	Temporarily no charge	Paid by SSE members to the SSE
	Treasury bond outright repo	Handling fee	Temporarily no charge	Paid by SSE members to the SSE
	Bond pledged repo on a negotiated basis	Handling fee	Temporarily no charge	Paid by SSE members to the SSE
	Pledged repo with quotation	Handling fee	Temporarily no charge	Paid by SSE members to the SSE
	Securities trading with agreed repo	Handling fee	Charged according to current standards on the initial and buyback transactions of bonds	Paid by SSE members to the SSE
Block trading	Cash bond (including ABS)	Handling fee	0.0001% of trading value (CNY100 cap per trade)	Paid by SSE members to the SSE

ABS = asset-backed securities, CNY = Chinese renminbi, SSE = Shanghai Stock Exchange.
Note: The above fee amounts include value-added tax.
Source: SSE. Trading Fees. http://english.sse.com.cn/tradmembership/tradingfees/.

The handling fee charged for each trade will be billed by CSDC on behalf of the SSE.

2. Shenzhen Stock Exchange

The SZSE charges trading fees and securities transaction regulatory fees to both parties based on the trade amount. The trading fee rate for convertible bonds is charged at CNY40 per million of face value; the trading fee rates for other bonds range from CNY0.1 to CNY10 per trade, depending on the value of each trade. The securities transaction regulatory fee rate is CNY10 per CNY1 million of the bond’s face value. Details on individual charges are shown in Table 6.7.

The exchange levy charged for each trade is billed by CSDC on behalf of the SZSE.

Table 6.7: Shenzhen Stock Exchange Trading and Regulatory Fees

Bond type	Fee	Rates	Payer	Notes
Treasury bond	Exchange levy	CNY0.1 per trade for a trade value less than or equal to CNY1 million, or CNY10 per trade for a trade value greater than CNY1 million	Both buying and selling settlement participant	
	Settlement risk fund	0.001% of trade value		Only new participants are charged in their first year
Corporate bond, enterprise bond	Exchange levy	CNY0.1 per trade for a trade value less than or equal to CNY1 million, or CNY10 per trade for a trade value greater than CNY1 million	Both buying and selling settlement participant	
	CSRC fee	0.001% of trade value		
Privately placed SME bond	Exchange levy	CNY0.1 per trade for a trade value less than or equal to CNY1 million, or CNY10 per trade for a trade value greater than CNY1 million	Both buying and selling settlement participant	
	CSRC fee	0.001% of trade value		
Convertible bond	Exchange levy	0.004% of trade value	Both buying and selling settlement participant	
	CSRC fee	0.001% of trade value		
Repurchase	Exchange levy	CNY0.1 per trade for a trade value less than or equal to CNY1 million, or CNY10 per trade for a trade value greater than CNY1 million	Both buying and selling settlement participant	
	CSRC fee	0.001% of trade value		

CNY = Chinese renminbi, CSRC = China Securities Regulatory Commission, SME = small and medium-sized enterprise.
Note: The above fee amounts include value-added tax and are as of March 2019.
Source: Shenzhen Stock Exchange. Trading Fees. http://www.szse.cn/English/services/trading/tradingFees/index.html.

The same fees apply for block trades in debt securities. The closing leg of a repo transaction does not attract a charge.

G. Costs for Settlement of Bond Transactions and Securities Transfers

As the single settlement institution and central securities depository for the exchange bond market, CSDC levies a number of fees for the services it provides when settling transactions or transferring debt securities.

1. Securities Management Fee

The settlement and transfer of bonds as a result of trades executed in the exchange bond market on the SSE and SZSE are carried out by CSDC on a book-entry basis. CSDC charges a so-called securities management fee to both settlement counterparties based on the transaction amount.[87] The securities management fee is typically set at CNY10 per CNY1 million of the bond's face value.

2. Contribution to the Securities Settlement Risk Fund

In addition, only for transactions in Treasury bonds and for repo transactions, CSDC charges a fee as a contribution to the Securities Settlement Risk Fund.[88] The contribution from transactions in Treasury bonds amounts to CNY10 per CNY1 million of the bond's face value, while the charge for repo transactions has a tiered structure based on the tenor of the repo transaction (Figure 6.8).

Table 6.8: Repo Transaction Contribution to the Securities Settlement Risk Fund

Type of Debt Securities	Repo Tenor	Fee Basis	Fee Amount
All instruments	1 day	Turnover amount	0.0005%
	2 days	Turnover amount	0.001%
	3 days	Turnover amount	0.0015%
	4 days	Turnover amount	0.002%
	7 days	Turnover amount	0.005%
	14 days	Turnover amount	0.01%
	28 days	Turnover amount	0.02%
	91 days	Turnover amount	0.06%
	182 days	Turnover amount	0.12%

Note: The above fee amounts include value-added tax.
Source: ABMF SF1 compilation based on the China Securities Depository and Clearing Co., Ltd. and Shenzhen Stock Exchange.

The fees are billed to the account holder. If the account holder is a custodian on behalf of an investor, the custodian is likely to pass the transaction fees incurred on to the investor as out-of-pocket expenses.

3. Cross-Market Fee

In the event that a transaction occurs between participants in different market segments, CSDC charges a so-called cross-market fee of 0.005% based on the par value of the trade, with a minimum charge of CNY10 and a maximum charge of CNY10,000. This fee is charged to the investor.

[87] Securities management fee is the term used in the English version of the CSDC rules.
[88] For information on the Securities Settlement Risk Fund, please see the CSDC website at www.chinaclear.cn.

H. Taxation Framework and Requirements

Tax legislation and policy are developed jointly by the State Administration of Taxation (SAT) and the MOF, with the SAT and its provincial and municipal offices administering taxation policies. Each locality in the PRC has a state tax bureau under the SAT and a local tax bureau under both the SAT and the local government.

Taxation treatment differs for domestic investors and for investments made by QFIIs and RQFIIs, as explained in the following sections.

1. Tax Treatment for Investments by QFIIs and RQFIIs

According to circulars issued by SAT and MOF and other materials, the application of business tax and corporate income tax (CIT) and other relevant taxes for investments in central government bonds and local government bonds by QFIIs and RQFIIs is exempt.[89]

Interest income from policy financial bonds and bonds issued by financial institutions is subject to a 10% withholding tax and a 6% value-added tax (VAT). Table 6.9 provides an overview of the taxation treatment for QFIIs and RQFIIs.

Table 6.9: Summary of Tax Treatment for Foreign Investors in the PRC Bond Market

<table>
<tr><th rowspan="3">Items</th><th colspan="3">Corporate Income Tax (WHT)</th><th colspan="2">Value-Added Tax</th></tr>
<tr><th colspan="2">Coupon Interest</th><th rowspan="2">Capital Gains</th><th rowspan="2">Interest (no withholding agent)</th><th rowspan="2">Capital Gains</th></tr>
<tr><th>QFII and RQFII (withheld at source for exchange-traded bonds)</th><th>CIBM Direct or Bond Connect (no withholding agent)</th></tr>
<tr><td>Government bonds and local government bonds</td><td colspan="2">Exempt</td><td>Exempt</td><td>Exempt</td><td>Exempt</td></tr>
<tr><td>Other nongovernment bonds, including policy financial bonds</td><td colspan="2">10%[a]</td><td>Exempt</td><td>6%[a] (plus applicable surcharge)</td><td>Exempt</td></tr>
</table>

CIBM = China Inter-Bank Bond Market, QFII = Qualified Foreign Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor, WHT = withholding tax.

[a] The Ministry of Finance and State Administration of Taxation issued a 3-year exemption (from 7 November 2018 to 6 November 2021) from the corporate income tax and value-added tax on interest income derived by foreign investors from their investment in the PRC bond market.

Sources: BNP Paribas, Citibank N.A, HSBC, PriceWaterhouseCoopers, and other publicly available sources.

2. Summary of Tax Treatment for Domestic Investors

For domestic investors, interest income derived from central government bonds and local government bonds is exempt from corporate income tax and VAT. Capital gains are subject to a 6% VAT.

[89] In compiling this information, ABMF SF1 referred to publicly available materials produced by Citibank N.A, BNP Paribas, HSBC, PriceWaterhouseCoopers, and others.

Interest income from policy financial bonds and bonds issued by financial institutions is subject to a CIT of 25% and an additional 6% VAT if not held to maturity. Also, capital gains from investment in these instruments is subject to a 6% VAT. Table 6.10 provides an overview of the taxation treatment for domestic institutional investors in the exchange bond market.

Table 6.10: Summary of Tax Treatment of Bond Investment by Domestic Institutional Investors

Items	Corporate Income Tax (WHT)		Value-Added Tax	
	Coupon Interest	Capital Gains	Interest	Capital Gains
Government bonds and local government bonds	Not taxed	25%	Not taxed	6%
Government-supported bonds	12.5%	25%	Not taxed	6%
PBOC bills, policy financial bonds, commercial bank bonds	25%	25%	Not taxed	6%
Other bonds[a]	25%	25%	6%	6%

PBOC = People's Bank of China, WHT = withholding tax.
[a] The applicable tax rate for bonds issued by railway corporations is 12.5%.
Sources: BNP Paribas, Citibank N.A, HSBC, and other publicly available sources.

3. Corporate Income Tax

Treasury bonds and local government bonds are not subject to income tax, with the prevailing view and practice in the market that government bonds are specifically exempt from corporate income tax.

4. Withholding Tax

Interest paid to nonresident investors from debt instruments—corporate bonds and convertible bonds—listed and traded in the exchange bond market is subject to a 10% withholding tax (WHT).

According to the Corporate Income Tax Law, which took effect on 1 January 2008, as well as the Implementation Rules issued by the SAT on 23 January 2009, QFIIs and RQFIIs are also subject to a WHT of 10% on their PRC-sourced interest income. At the same time, interest income derived from government bond investment during the holding period is exempt from CIT.

As per market practice, the following entities are responsible for withholding WHT:

i. Bond issuers are required to withhold WHT on interest when the interest is paid or due.
ii. Custodian agent banks of QFIIs or RQFIIs are also required to withhold a 10% tax on interest from all QFII or RQFII cash accounts, including CNY-denominated and foreign currency accounts.

Under the general tax provisions of the Corporate Income Tax Law, a nonresident enterprise that is not effectively connected with any establishment or place of business in the PRC (refers to tax technical term of permanent establishment) would be subject to a 10% withholding tax on capital gains from listed securities if such a tax were implemented.

On 30 August 2018, the State Committee of the State Council proposed a 3-year exemption from CIT and VAT on interest income derived by foreign investors from their investment in the PRC bond markets. The MOF and SAT will issue detailed regulations in due course.

5. Capital Gains Tax

On 14 November 2014, the MOF, SAT, and CSRC jointly issued a notice regarding the tax treatment of capital gains for QFIIs and RQFIIs. The notice advised only that QFIIs and RQFIIs will be temporarily exempted from CIT for the capital gains derived from transferring stocks and other equity investments in the PRC, effective 17 November 2014, and shall pay corporate income tax on the capital gains derived before 17 November 2014.

For securities traded in the exchange bond market (and in the CIBM), capital gains realized from bond sales were theoretically out of the scope for an application of CIT. As further advised by the MOF and SAT in the PBOC meeting with CIBM bond settlement agents (CCDC and SHCH) on 20 October 2016, the framework for the application of CIT on CIBM capital gains was close to finalization, by which CIT on the capital gains of QFIIs and RQFIIs shall be exempted.

6. Value-Added Tax

On 23 March 2016, the MOF and SAT jointly issued Caishui (财税) (No. 36), which sets out the detailed implementation rules for the transition from business tax to VAT. From 1 May 2016, VAT replaced the business tax to cover all sectors that used to fall under the business tax regime. For the financial industry, a 6% VAT now applies to nearly all major forms of remuneration derived from financial services.

According to Caishui (No. 36) and Caishui (No. 70) (released on 30 June 2016), the MOF and SAT stipulated that

i. interest income from government bonds issued by the MOF and local government bonds is exempted from VAT, and
ii. income derived from securities trading through domestic companies appointed by QFIIs and RQFIIs is exempted from VAT.

According to Caishui (No. 36), QFIIs are exempt from VAT with respect to gains derived from the trading of securities investments under the QFII scheme. However, it is uncertain whether RQFIIs can be exempted from VAT with respect to gains derived from the trading of securities investments and whether securities investments also include bond investments.

A 6% VAT will also apply to interest income derived from bond investment by domestic institutional investors, while the deposit interest income derived from cash accounts with commercial banks is beyond its scope.

7. Double Taxation Agreements

The PRC has entered into more than 100 double taxation agreements (DTAs).

If a nonresident investor can apply a DTA and the DTA rate differs, the tax treaty rate should apply. Eligible foreign investors may apply for relief under any relevant tax treaty. Foreign investors are required to submit documents to the SAT and state or local tax authorities for approval or reporting before they can enjoy tax treaty rates on dividends or interest.

RQFIIs who are eligible for a lower tax rate under a DTA can apply for tax-relief-at source or file a reclaim from the tax bureau at the paying agent's domicile. For an RQFIIs' deposit interest, the custodian agent bank will be willing, through its domicile tax bureau, to help eligible RQFIIs file the application to claim tax treaty benefits.

8. Stamp Duty

Stamp duty is not applicable for transactions in debt instruments in the exchange bond market. The application of stamp duty is limited to the equity market.

9. Transaction Tax

A transaction tax is not applicable in either the exchange bond market or in other market segments in the PRC.

VII

Market Size and Statistics

The original ASEAN+3 Bond Market Guide was published in April 2012 and included several pages of bond market statistics for the PRC, including historical data such as bond holdings, bondholder distribution, outstanding amounts, and trading volumes. Not surprisingly, this data became stale soon after publication.

Since the ASEAN+3 Bond Market Guide is most likely to be updated only on a biennial basis, it is not the best channel for the dissemination of market statistics. Hence, a chapter comprising bond market statistics has been discontinued and replaced with a list of recommended sources for detailed, accurate, and current information sources on the China exchange bond market. These sources are listed below in alphabetical order.

- *AsianBondsOnline* (an ASEAN+3 initiative led by ADB)
  https://asianbondsonline.adb.org/economy/?economy=CN.
  - Market-at-a-Glance
  - Data (market size, yields, indicators, ratings, including historical data)
  - Market structure
  - Market summary
  - News (latest statistics)

- China Securities Depository and Clearing Co., Ltd.
  www.chinaclear.cn.
  - General Statistics
  - Indexes
  - Yield curves
  - Valuations

- China Securities Index Co., Ltd.
  http://www.csindex.com.cn/en/.
  - General Statistics
  - Yields, yield curves
  - Indexes

- Shanghai Stock Exchange
  http://english.sse.com.cn/indices/indices/introduction/.
  Indexes and statistics (bond indexes, historical data, trading summaries)

- Shenzhen Stock Exchange
  https://www.szse.cn/main/en/.
  Indexes and statistics (bond indexes, historical data, trading summaries)

VIII

Presence of an Islamic Bond Market

At present, there is no Islamic bond market in the PRC.

IX

Challenges and Opportunities in the Exchange Bond Market

This chapter discusses some of the real and perceived challenges facing specifically the exchange bond market in the PRC, its market institutions, and its participants. This chapter also aims to describe some of the possible mitigating factors or market developments that could address these challenges in an appropriate manner.

A. Challenges in the Exchange Bond Market

The purpose of this section is to state any challenges facing the exchange bond market, together with any remedial action, that is being implemented or in the planning stages.

1. Current Policy Challenges in the Exchange Bond Market

The policy challenges below include an extract from 2017 and 2018 CCDC reports, which to a certain degree are also applicable to the exchange bond market:[90]

i. Exchange bond market liquidity should be improved by, for example, increasing the participation of the banking sector as the main fixed-income investors in the PRC. Banking sector investors already represent important participants in the CIBM. Following the cooperation between supervisory authorities and policy makers, as well as the securities settlement system agencies and the trading platform operating agencies of both markets, quite a number of banking sector institutions in the CIBM can already invest in instruments listed and traded in the exchange bond market. Consequently, cross-market transactions have been increasing.
ii. The benchmark role of the government bond yield curve still needs to be improved. It should take into consideration the unified expansion of the primary and secondary government bond markets among the CIBM and exchange bond market.
iii. It is necessary to strengthen the continuous supervision of bond market intermediaries and control the impact of real risks on the corporate bond market. While credit default events decreased in 2017, compared with the previous year, the corporate bond market continued to show characteristics of companies' heavy debt reliance.
iv. Lead underwriters, CRAs, and accounting firms should continue to pay close attention in a timely manner to the business and financial situation of issuing companies that they service and conduct regular stress tests to ensure that risks are detected, controlled in time, and properly disposed of.
v. The need to increase the ability of asset appraisal institutions and bond guarantee institutions to provide services to the bond market and to improve

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[90] CCDC (中央结算公司统计监测部). 2018. *Annual Report on Bond Market Statistical Analysis 2017* (2017 年债券市场统计分析报告年报 2018 年 1 月 16 日). Beijing; CCDC. 2019. *Annual Report on Bond Market Statistical Analysis 2018* (2018 年债券市场统计分析报告 2019 年 1 月 16 日). Beijing.

their capabilities to exercise their positions fairly was identified as a challenge.

vi. It is important to provide more sound, appropriate, and convenient financing channels for SMEs, such as SME private placement bonds, and create more appropriate market practices for such instruments.

vii. Regarding corporate bonds and enterprise bonds, it is necessary to develop an appropriate risk control mechanism for not only the publicly offered bond market to QIIs but also the non-public placement market. Operating procedures and market practices for the non-public placement market are becoming more important as issuances increase, in order to avoid an unwanted increase in credit risk and event risk.

viii. It is important to improve the risk identification and information disclosure mechanism for corporate bonds and ABS, as well as for public bonds and repos.

ix. At present, there is no complete and mature evaluation model for risk identification of asset securitization, which requires a more transparent, comprehensive, and favorable information disclosure mechanism. In 2017, ABS issuances accelerated, which necessitated an appropriate information disclosure system to control multiple risks and ensure a fair pricing mechanism. In line with this objective, the SSE and SZSE subsequently issued a series of targeted documents to further clarify and strengthen the application for listing as well as the information disclosure requirements for the asset securitization business.

x. It is necessary to further increase the participation channels of overseas institutional investors and improve the openness of the exchange bond market.

xi. The introduction of overseas CRAs in the credit rating of issuances in the PRC bond market is conducive to promoting the opening of the bond markets and enhancing the attractiveness of the PRC's bonds. Credit ratings have also been identified as the key to the interconnection of the exchange bond market and the CIBM. In response, the PBOC issued Announcement No. 7 to Liberalize the Credit Rating Business of Overseas Rating Agencies in the Inter-Bank Bond Market in 2017, which gave foreign CRAs the ability to carry out credit rating activities beyond Panda bonds.

xii. Due to the different trading venues and regulatory agencies, there are many sets of systems with different value orientations, operating mechanisms, and supervision methods, which may affect the efficiency of bond resource allocation and comprehensive risk prevention and control. It is necessary to adhere to the general direction of market-oriented operation and unified supervision, and clarify various mechanisms such as market access, information disclosure standards, investor suitability, bankruptcy and liquidation, and establish a unified bond supervision system.

xiii. The bond market should be linked with other financial product markets to enrich the asset allocation of investors, reduce transaction costs, increase the level of activity in the PRC's financial market, and promote the balanced dispersion of risks across the markets.

xiv. At the same time, important key market (including historical) data should be constantly monitored. An overall monitoring function encompassing all bond market segments should be developed in an integrated manner and with transparency.

xv. An agreed and coordinated usage of terminology (in Chinese and in English) among all stakeholders in relation to the financial and capital markets is needed to make the market and its terms more compatible with international markets.

B. Opportunities in the Exchange Bond Market

The exchange bond market is the distinct corporate bond market in the PRC. As such, it offers opportunities for many corporate issuers, both domestic and international. The steady increase in the number of issuances and trading volumes on the SSE and SZSE (see also Chapter I.B), as well as the further liberalization of foreign investor activities (see also Chapter II.N), have made the exchange bond market an important segment in the capital market in the PRC.

At the same time, the formalization and proper management of non-public (private) placement and the establishment and proper functioning of the Qualified Investor concept and its exemption mechanism are key to the creation of a recognized professional bond market in the PRC.

1. Establishment of Qualified Investors Concept

The 2015 measures introduced the concept of Qualified Investors, which is a professional investors scheme that, in its features and criteria, corresponds to many similar professional investor schemes in ASEAN+3.

The ability for issuers to issue corporate bonds or enterprise bonds exclusively to Qualified Investors is expected to further drive the demand for such issuances, likely through non-public (private) placements, in the PRC’s exchange bond market.

The Qualified Investors concept and its exemption mechanism from full disclosure requirements and the wider usage of English in disclosure documents also put the exchange bond market on track to consider joining other regional professional markets in supporting AMBIF (see also the next section).

2. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets offers an opportunity for issuers in the PRC bond market to use the same issuance documentation and disclosure information across a number of regional markets, if AMBIF were to be supported by policy bodies, regulatory authorities, and SROs in the PRC.

In the exchange bond market, the introduction of the Qualified Investors concept and its exemption mechanism (see above), streamlined CSRC and/or exchange approval for issuances to Qualified Investors, and the consideration of allowing issuance documentation in English, whether as additional material to documentation in Chinese or in place of it, are notable developments toward an AMBIF-eligible marketplace in the PRC.

At the same time, potential issuers have identified the PRC’s exchange bond market as one of particular interest, primarily due to the size and attractiveness of such a large market, its focus on corporate (enterprise) bonds, and as a means to support the decentralized funding of domestic business operations in the PRC.

For a more detailed description of AMBIF, please refer to Chapter X.B.

X

Recent Developments and Future Direction

A. Recent Developments

Recent major developments are considered those that occurred or have been announced in the PRC since the first publication of the ASEAN+3 Bond Market Guide in April 2012, with a particular focus on the exchange bond market.

1. Introduction of the Financial Stability and Development Commission

In November 2017, the Government of the PRC formally set up a committee under the State Council, the Financial Stability and Development Commission (FSDC), to oversee financial stability and development focusing on the deliberation and coordination of major issues concerning financial stability and related reform and development in the financial and capital markets.

According to a news release by the State Council, some of the primary purposes of the FSDC are to "strengthen financial regulatory coordination and supplement regulatory shortcomings," strengthen the regulatory role of financial regulatory departments, and ensure the safe and stable development of the Chinese financial sector."[91] Its remit includes structural optimization, improvements to financial markets, financial institutions, and the financial product system.

The FSDC is expected to firmly uphold quality as its chief priority, guide the financial sector's development in coordination with economic and social development, expedite the convenience of financing, reduce costs in the real economy, raise resource allocation efficiency, and ensure that risk is controllable.

In addition, the National People's Congress approved the State Council Organization Reform Plan in March 2018. Under the plan, a restructuring of the financial administration was carried out, including the integration of the CBRC and the CIRC, which led to the new CBIRC with more comprehensive functions. At the same time, the function of planning legislation and prudential policy from the CBRC and CIRC in their original form was transferred to the PBOC.

Traditionally, the functions of financial institution supervision and management were dispersed among the CBRC, CIRC, CSRC, and PBOC. In recent years, obstacles to the development of the domestic financial securities markets have been revealed due to the expansion of shadow banking and Internet finance, and the regulatory division in the bond markets was noted. Therefore, there has been an urgent need for more fluid, developmentally comprehensive cooperation among market participants across the traditional industry to address market barriers, and a rectification of imbalances with regard to enforcement. The financial supervisory control system under the initiative of

[91] State Council, Government of the PRC. 2017. *News Release*. 9 November. http://english.gov.cn/news/top_news/2017/11/08/content_281475936107760.htm.

the FSDC will use this new environment toward further integration of financial market administration.

2. First Non-Public Placement of Innovation and Entrepreneurship Convertible Bonds

On 13 October 2017, the SZSE granted permission for the private placement of innovation and entrepreneurship convertible bonds of BlueSky Environmental Protection & Technology Co., Ltd., as applied for by Huafu Securities as sponsor.

Under the private placement, BlueSky Environmental Protection & Technology Co., Ltd., a company listed on the innovative board of NEEQ, was able to issue up to CNY150 million of innovation and entrepreneurship convertible bonds with tenors not exceeding 3 years. The bonds would enter a conversion period 6 months after their issuance. During the two declaration periods as prescribed in the bond prospectus, bondholders would be able to apply to convert the bonds into the stock of the issuer. The private placement was issued pursuant to the Guidance of China Securities and Regulatory Commission on Launching Pilot Bond Projects by Innovative Companies and Start-Ups, and the Rules for Private Placement of Convertibles Bonds by Innovative Companies and Start-Ups (for Trial Implementation) as jointly promulgated by the SZSE, NEEQ, and CSDC.

The SZSE was aiming to leverage this pilot issuance to improve its ability to serve innovative companies and start-ups during their offering of innovation and entrepreneurship bonds, and to help support the growth of the bond market overall.

3. SSE and SZSE Implemented New Rules for Collateralized Repo of Bonds

To improve the business of collateralized (pledged) repo of bonds, and as approved by CSRC, both the SSE and SZSE issued the Notice of Revision to Some Articles Related to Bond Trading in the Trading Rules and Detailed Rules for Implementation of Bond Trading on 14 April 2017. The new rules for the collateralized repo of bonds officially took effect on 22 May 2017. The revision of the rules was an important move to improve the rate formation mechanism for collateralized bond repo.

4. Promulgation of the 2015 Measures

The 2015 Measures for the Administration of Corporate Bond Offering and Trading (No. 113) (公司债券发行与交易管理办法)—in this bond market guide frequently referred to as the 2015 measures—were promulgated by CSRC effective 15 January 2015 and quickly became a game changer in the exchange bond market. The 2015 measures introduced the Qualified Investor concept, as well as the ability for issuers to offer their bonds only to such Qualified Investors, effectively creating a private placement scheme. Furthermore, the 2015 measures also allowed for the issuance of debt securities via a public offering to Qualified Investors in cases when conditions for a public offering to all investors (e.g., prescribed credit rating quality) could not be met. Finally, the 2015 measures also empowered the exchanges to review the issuance applications for such offers under delegated authority from the CSRC. Please see Chapter III.N for information on the Qualified Investor concept and Chapter II.F for a complete description of the issuance approval processes in the exchange bond market.

Following the introduction of the new market features in the 2015 measures, there was a significant increase in the number and value of listed debt securities on the SSE and SZSE (see also Chapter I.B.4 for details).

5. Changes in the QFII and RQFII Schemes

The QFII scheme was introduced in 2002, allowing foreign investors direct access to the PRC's domestic securities market for the first time. At the time, the investment opportunities were limited to the exchange market.

The RQFII scheme was initiated in late 2011 and allowed the use of offshore Chinese renminbi raised by the subsidiaries of Chinese domestic fund management companies and securities companies in Hong Kong, China to invest in the PRC domestic securities market for the first time.

Since their inception, the QFII and RQFII schemes have evolved significantly from the point of market accessibility, regulatory reforms, and capital mobility, particularly in the last 3 years, with some of the measures for further liberalization of the QFII and RQFII concepts from 2016 to 2018 including the following:

i. In September 2016, RQFII rules set by SAFE were further relaxed regarding quota application and control, including simplifying the quota application process, easing restrictions on inward and outward remittances, and shortening the lockup period. In the same month, CSRC verbally advised and removed asset allocation restrictions on QFIIs and RQFIIs. In order to increase the convenience of investment operations and introduce more overseas funds with a longer-term commitment, policy bodies and CSRC in the future would no longer impose limitations on the allocation of QFII and RQFII assets, leaving asset allocation to their discretion, while also strengthening the continuous supervision of investment activities.

ii. In July 2017, the overall RQFII quota was increased to CNY1,740 billion.

iii. On 12 June 2018, to further ease restrictions on foreign institutional investors' access to the PRC's financial markets, the PBOC and SAFE issued the new Regulations on Foreign Exchange Administration for Domestic Securities Investment by QFII and the Circular on the Administration for Domestic Securities Investment by RQFII to facilitate the easier repatriation of capital and management of foreign exchange risks in association with securities investments by QFIIs and RQFIIs. The new regulations removed the 20% cap on the amount of capital that QFIIs could remit out of the country and the 3-month lockup period for redeeming the investment principal. In addition, QFIIs and RQFIIs were allowed to place corresponding hedges on their domestic investments in the foreign exchange market.

At the end of July 2018, the total QFII investment quota had reached USD100.5 billion, allocated among 287 license holders. At the end of September 2018, the total RQFII investment quota had reached CNY1,940.0 billion, shared between 20 countries and regions, with the actual invested amount of 203 entities reaching CNY640.0 billion.[92]

For further details on the QFII and RQFII schemes, please also see Chapter II.N.

6. Changes in Market Access Routes to the PRC Bond Market

Since its accession to the World Trade Organization in 2001, the Government of the PRC has established various concepts for opening the domestic bond and capital markets, in line with the needs of foreign investors and potential issuers.

[92] China Securities Network. http://news.cnstock.com/news,bwkx-201809-4279303.htm.

Specifically with regard to investment in the PRC bond market, these concepts included: (i) QFII, (ii) the Pilot Scheme for Three Types of Institutions (三类机构), (iii) RQFII, (iv) the CIBM Direct Scheme, and (v) Bond Connect (for the CIBM); please see Table 10.1 for a brief summary of each concept's features. Chapter III.M contains a full description of the features of the market access concepts available for investors into the CIBM.

The individual concepts introduced by the government served specific purposes in line with the various stages of development of the bond market.

While the QFII concept at its inception in 2002 as a first foreign access method to the PRC's capital market overall focused on the exchange market and favored equities, other initiatives were established as part of the national policy of the internationalization of the Chinese renminbi, such as the Pilot Scheme for Three Types of Institutions and RQFII, to provide means of effective use of offshore Chinese renminbi that had been accumulated outside of the PRC.

In the earlier concepts, it had still been necessary for each foreign institutional investor to be approved by the competent authorities and to observe a quota.

The availability of foreign investment access methods was followed by opportunities for nonresident issuers as well, by introducing the issuance of Panda bonds.

Since 2015 in particular, further policy and regulatory measures to open the PRC bond market—as part of the broader liberalization of the capital market—have shifted from a framework with inherent limitations to a framework with a focus on enabling investment at the discretion of foreign investors.

In February 2016, overseas financial institutions were authorized to invest in the CIBM with only a notification to the PBOC. CIBM Direct, as it is now known, has emerged as a highly flexible framework without a need for approval, no investment limit, or repatriation restrictions.

The most recent measure, Bond Connect, introduced in July 2017, took a further step toward the opening of the domestic bond market in the PRC, allowing nonresident investors with established accounts in Hong Kong, China to access the CIBM with a streamlined approval and onboarding process. A variation of Bond Connect accessing the exchange bond market may be introduced in the near future.

Table 10.1: Overview of Market Access Routes into the PRC Bond Market

Items	QFII	Pilot Scheme for Three Types of Institutions	RQFII	CIBM Direct Scheme	Bond Connect (Northbound)
Market	(1) Exchange Market (2) CIBM	CIBM	(1) Exchange Market (2) CIBM	CIBM	CIBM
Commenced	(1) 2002 (2) 2011	2010	2011	2016	2017
Currency	FCY	CNY (CNH)	CNY (CNH)	CNY (CNH), FCY	CNY (CNH)
Approving Authorities	(1) CSRC, SAFE (2) CSRC, SAFE, PBOC	PBOC	(1) CSRC, SAFE (2) CSRC, SAFE, PBOC	PBOC, SAFE	N.A.
Original Scheme	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota through CNY raised in the PRC in exchange for foreign currency to be remitted inbound.	Allowed three specific types of institutions to participate in the CIBM: (i) foreign central banks or monetary authorities, (ii) CNH settlement banks in Hong Kong, China and Macau, China; and (iii) cross-border CNH settlement participating banks in Hong Kong, China and Macau, China.	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota allocated to eligible jurisdictions through CNH raised outside of the PRC.	Allowed foreign investors (QOII) to access the CIBM. Foreign institutions can trade bonds directly through banks holding a Type A license.	Allowed CMU account holders (including foreign investors) to access CIBM via a HKMA-CMU link to CCDC. No quota requirement or need for investors to identify the intended investment amount.
Original Restrictions	Investment quota (USD), regulations on remittance of principal injection period, asset allocation, and repatriation, including a lock-up period and outward remittance	Limitation of participating institutions; investment limit remained within the range of CNH holdings of each institution.	Investment quota (CNY) by countries and regions, and allocated quota by entities; other original restrictions were the same as for QFII.	Investors must invest (within a 9-month period) at least 50% of the investment amount mentioned in their filing form.	Each institution is required to submit an application to PBOC and CFETS via BCCL, a joint venture of HKEX and CFETS.
Size of the Scheme	Total allocated quota: USD100.46 billion for 287 approved QFIIs		Total allocated quota: CNY640.17 billion for 203 entities in 20 approved jurisdictions Total approved quota: CNY1,940 billion	Total foreign investors in CIBM: 373 Total foreign holdings in the CIBM: USD216.8 billion[a]	Total foreign investors registered through Bond Connect: 450

BCCL = Bond Connect Company Limited; CCDC = China Central Depository & Clearing Co., Ltd.; CFETS = China Foreign Exchange Trading System; CIBM = China Inter-Bank Bond Market; CNH = offshore Chinese renminbi; CMU = Central Moneymarkets Unit; CNY = Chinese renminbi; CSRC = China Securities Regulatory Commission; FCY = foreign currency; HKEX = Hong Kong Exchanges Limited; HKMA = Hong Kong Monetary Authority; N.A. = not applicable; PBOC = People's Bank of China; QFII = Qualified Foreign Institutional Investor; QOII = Qualified Overseas Institutional Investor; RQFII = Renminbi Qualified Foreign Institutional Investor; SAFE = State Administration of Foreign Exchange; USD = United States dollar.

[a] Present-day number of foreign investors include QFIIs and RQFIIs under their original approval.

Sources: Bank of China, BNP Paribas, BNY Mellon, Bond Connect Company Limited, Clifford Chance, King & Wood Mallesons, K&L Gate, Linklaters, Mizuho Securities; for size of schemes: for QFII, SAFE and Shanghai Stock Exchange (data as of July 2018); for RQFII, SAFE and other publicly available sources (data as of September 2018); for CIBM Direct, PBOC (data as of May 2018); for Bond Connect, Bond Connect Company Limited (data as of October 2018).

B. Future Direction

1. Further Opening of the PRC Capital Market (Bond Market)

On 11 April 2018, at the Boao (博鳌) Forum for Asia Annual Conference, President Xi Jinping announced that the PRC would significantly broaden market access, and PBOC Governor Yi Gang announced specific measures and timeframes for the further opening of the financial industry.

The PRC is expected to continue with capital account convertibility reform and deepen the reform of the CNY exchange rate formation mechanism. Market participants are expected to be more involved and active in the CNY exchange market and the CNY-denominated bond market.

Financial institutions, especially commercial banks, will need to provide better services in CNY clearing and settlement, investment and financing, trading and asset management; and facilitate the use of CNY in payment, settlement, investment, and as a reserve currency, so that the breadth and depth of the Chinese renminbi's internationalization will be enhanced.

The release of the associated PBOC notice improved the institutional arrangements for overseas institutions to issue bonds in the CIBM, aligned the domestic institutional rules with international standards, and helped further the internationalization of the PRC bond market.

Furthermore, on 30 August 2018, the State Committee of the State Council proposed a 3-year exemption from CIT and VAT on interest income derived by foreign investors from their investment in the PRC bond market. The MOF and SAT are expected to issue detailed regulations in due course.

In recognition of the importance of eliminating potential anxiety factors over the medium- to long-term, it is expected that more permanent tax exemption measures will be put in place to support the development of a stable and sustainable domestic bond market.

2. ASEAN+3 Multi-Currency Bond Issuance Framework

The introduction of AMBIF in regional markets in the course of 2015 signaled another potential opportunity for bond issuance activities in markets other than the original adopters, which were Hong Kong, China; Japan; Malaysia; the Philippines; Singapore; and Thailand.

Potential issuers have identified the PRC as one of the markets of particular interest, largely due to the size and attractiveness of such a large market but also to support the decentralized funding of domestic business operations in the PRC.

Aimed particularly at the issuance of corporate bonds to professional investors in participating markets, AMBIF encourages domestic and regional issuers to take advantage of streamlined issuance approval processes across the region.
For additional information on AMBIF, kindly refer to the ADB website.[93]

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[93] See ADB. 2015. *Implementation of the ASEAN+3 Multi-Currency Bond Issuance Framework: ASEAN+3 Bond Market Forum Sub-Forum 1 Phase 3 Report*. https://www.adb.org/publications/implementation-ambif-asean3-bond-market-forum-sf1-p3.

The key advantage of AMBIF for the PRC lies in the ability of regional issuers (including those from the PRC) to tap multiple markets in addition to their domestic bond market while using the same or similar key disclosure documentation and comparable approval processes. This offers an alternative for corporate issuers to issue bonds across markets instead of (or in addition to) relying on other forms of funding.

AMBIF prescribes, among other elements, the presence of a professional investor only market segment and the use of documentation in English. The exchange bond market in the PRC already contains many of the features necessary for the issuance of AMBIF bonds in the near future.

Notably, the use of English issuance documentation and disclosure information, possibly in addition to documentation in Chinese, remains a subject for the consideration of the policy bodies and regulatory authorities in the PRC.

Appendix 1
Compliance with International Principles

The Group of Thirty recommendations were originally conceived as the group's Standards on Securities Settlement Systems in 1989, detailing in a first-of-its-kind report, nine recommendations for efficient and effective securities markets covering legal, structural, and settlement process areas.

The recommendations were subsequently reviewed and updated in 2001 under the leadership of the Bank for International Settlements and through the efforts of a joint task force of the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions.

Compliance with the Group of Thirty recommendations in individual markets is often an integral part in the securities industry participants' and intermediaries' due diligence process.

The PRC bond market, in fact the capital market at large, only began to open to foreign investors with the introduction of the QFII concept in 2002. As such, policy bodies, regulatory authorities, and market institutions have focused on the more recently introduced benchmarking and monitoring practices in the financial and securities markets.

One critical measure in the securities markets in recent years has been conformity with the Principles of Financial Market Infrastructures (PFMI), jointly introduced in 2012 and also monitored by committees of the Bank of International Settlements and the International Organization of Securities Commissions.[94] The PFMI are international standards for systemically important payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories.

According to the third update on the implementation monitoring of the implementation level 1 of the PFMI, published on 28 June 2016, regulators and market infrastructure providers in the PRC had achieved level-1 compliance with the PFMI and were awarded the highest rating, including those in the exchange bond market.[95]

Level 1 of the implementation monitoring program has been monitoring whether jurisdictions have completed the process of adopting their legislation and other policies that will enable them to implement the PFMI.

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[94] A portion of the text has been adopted from Bank of International Settlement and International Organization of Securities Commissions. 2012. *Principles of Financial Market Infrastructures*. https://www.iosco.org/library/pubdocs/pdf/IOSCOPD377-PFMI.pdf.
[95] For the full text of the third update report, please see https://www.iosco.org/library/pubdocs/pdf/IOSCOPD534.pdf.

CSRC, as well as the other relevant regulatory authorities for the PRC bond market, and its market institutions continue to be committed to adopting international standards and practices.

Appendix 2
Practical References

For easy access to further information about the market features described in this Exchange Bond Market Guide for the People's Republic of China—including information on the policy bodies, regulatory authorities, and securities market-related institutions—interested parties are encouraged to utilize the following links (most web pages are available in English):

AsianBondsOnline (ADB)
https://asianbondsonline.adb.org/economy/?economy=CN.

China Banking and Insurance Regulatory Commission
www.cbrc.gov.cn. (URL retained from CBRC)

China Financial Futures Exchange
www.cffex.com.cn.

China Securities Depository and Clearing Co., Ltd.
www.chinaclear.cn.

China Securities Regulatory Commission
www.csrc.gov.cn.

National Development and Reform Commission of the People's Republic of China
http://en.ndrc.gov.cn.

National Equities Exchange and Quotations
http://www.neeq.com.cn/.

Shanghai Stock Exchange
www.sse.com.cn.

Shanghai Stock Exchange—Fact Book 2017
http://english.sse.com.cn/indices/publications/factbook/c/4389134.pdf.

Shenzhen Stock Exchange
www.szse.cn.

Shenzhen Stock Exchange—Fact Book 2016
http://www.szse.cn/UpFiles/largepdf/20170321091732.pdf.

Securities Association of China
www.sac.net.cn/en.

State Administration of Foreign Exchange
http://www.safe.gov.cn/wps/portal/english/Home.

Chinalawinfo Co., Ltd.—Peking University online legal information service in English
www.lawinfochina.com.

Appendix 3
List of Laws and Regulations for the Exchange Bond Market

A list of the applicable laws and regulations with relevance for the exchange bond market in the PRC is provided below for easy reference. The information given was correct at the time of the completion of the Bond Market Guide for the Exchange Bond Market in the People's Republic of China and will be updated periodically. Since the exchange bond market is developing rapidly, interested parties are encouraged to regularly check the links provided elsewhere in this bond market guide for the latest versions.

Table A3.1: List of Laws and Regulations for the Exchange Bond Market

Legislative Tier	Content or Significant Examples
Laws (key legislation)	• Securities Law of the People's Republic of China (2014 Amendment, effective 31 August 2014) (中华人民共和国证券法) • Company Law of the People's Republic of China (2013 Amendment, effective 28 December 2013) (中华人民共和国公司法)
Administrative regulations	• Interim Measures for Administration of Treasury Bonds of the People's Republic of China, implemented in 1997 • Measures for Administrating the Information Disclosure of Listed Companies (30 January 2007) • Regulation on Treasury Bonds of the People's Republic of China, implemented in 1992 and revised in 2011 • Regulations on the Administration of Enterprise (Corporate) Bonds (Revised 2011, effective 8 January 2011) (企业债券管理条例) • Opinions of the General Office of the State Council on Further Strengthening the Work of Protection of the Legitimate Rights and Interests of Minority Investors in the Capital Markets (effective 25 December 2013) (国务院办公厅关于进一步加强资本市场中小投资者合法权益保护工作的意见) • Opinions of the State Council on Further Promotion of Healthy Development of Capital Markets (effective 8 May 2014) (国务院关于进一步促进资本市场健康发展的若干意见) • Interim Regulation on Enterprise Information Disclosure (effective 7 August 2014) (企业信息公示暂行条例) • (Interim) Guidelines for Bidding in Issuance of Enterprise Bonds, implemented in 2014 (国家发展和改革委员会财政金融司发布 企业债券招标发行业务指引 (暂行)) • (Interim) Guidelines for Book-Building in Issuance of Enterprise Bonds, implemented in 2014 (国家发展和改革委员会财政金融司发布 企业债券簿记建档发行业务指引(暂行)) • Measures for the Administration of Corporate Bond Offering and Trading (No. 113) (effective 15 January 2015) (公司债券发行与交易管理办法) • Measures for the Administration of Securities Registration and Clearing (2017 Amendment, effective 7 December 2017) (证券登记结算管理办法)

Departmental rules	• Administrative Measures for the Cross-Market Transfer of Government Bonds (财政部关于印发《国债跨市场转托管业务管理办法》的通知, MOF [2003] 1025号) • Regulation of the People's Republic of China on Foreign Exchange Administration (Revised 2008, effective 5 August 2008) (中华人民共和国外汇管理条例) • Decision of the China Securities Regulatory Commission on Amending the Measures for the Administration of Securities Registration and Clearing, 2009 (effective 20 November 2009) (中国证券监督管理委员会关于修改《证券登记结算管理办法》的决定) • Announcement No. 1 of the China Securities Regulatory Commission—Guideline No. 1 for the Supervision of Unlisted Public Companies—Information Disclosure (effective 4 January 2013) (中国证券监督管理委员会公告(2013)1号—公布《非上市公众公司监管指引第1号—信息披露》) • Notice of the Ministry of Finance, the People's Bank of China, and the China Securities Regulatory Commission on Carrying out the Pilot Program of Pre-issuance of Treasury Bonds (effective 13 March 2013) (财政部, 中国人民银行, 中国证券监督管理委员会关于开展国债预发行试点的通知) • Announcement No. 52 of the China Securities Regulatory Commission—Standards for the Contents and Formats of Information Disclosure by Non-Listed Public Companies No. 3—Private Placement Memorandum and Issuance Report (effective 26 December 2013) (中国证券监督管理委员会公告(2013) 52号—非上市公众公司信息披露内容与格式准则第3号—定向发行说明书和发行情况报告书) • Announcement No. 53 of the China Securities Regulatory Commission—Standards Concerning the Contents and Formats of Information Disclosure by Non-Listed Public Companies No. 4—Application Documents for Private Placement (effective 26 December 2013) (中国证券监督管理委员会公告(2013) 53号—非上市公众公司信息披露内容与格式准则第4号—定向发行申请文件) • Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 26—Special Provisions on Information Disclosure by Commercial Banks (Revised 2014, effective 6 January 2014) (公开发行证券的公司信息披露编报规则第26号--商业银行信息披露特别规定) • Administrative Provisions on Asset Securitization of Securities Companies and Subsidiaries of Fund Management Companies, implemented in 2014 • Announcement No. 54 of the China Securities Regulatory Commission—Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15—General Provisions on Financial Reports (Revised 2014, effective 25 December 2014) (中国证券监督管理委员会公告2014年第54号—关于《公开发行证券的公司信息披露编报规则第15号—财务报告的一般规定 (2014年修订)》的公告) • Announcement No. 3 of the China Securities Regulatory Commission—Announcement on Issuing the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 24—Application Documents for the Offering of Corporate Bonds to the Public (Revised 2015, effective 2 March 2015) (中国证券监督管理委员会公告 [2015] 3号—关于公布《公开发行证券的公司信息披露内容与格式准则第24号—公开发行公司债券申请文件》的公告) • Announcement No. 2 of the China Securities Regulatory Commission—Announcement on Publishing the Standards for the Contents and Formats of Information Disclosure by Companies

	Offering Securities to the Public No. 23—Prospectus for Public Issuance of Corporate Bonds (Revised 2015, effective 2 March 2015) (中国证券监督管理委员会公告 [2015] 2号—关于公布《公开发行证券的公司信息披露内容与格式准则第23号—公开发行公司债券募集说明书(2015年修订)》的公告) • Notice of the Ministry of Finance, the People's Bank of China and the China Banking Regulatory Commission on Matters Concerning the Issue of Local Government Bonds in the Form of Private Placement, 2015 (effective 15 May 2015) (财政部、中国人民银行、中国银行业监督管理委员会关于2015年采用定向承销方式发行地方政府债券有关事宜的通知) • Announcement No. 3 of the China Securities Regulatory Commission—Issuing the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 38—Contents and Formats of Annual Reports on Corporate Bonds and the Supplementary Provisions on the Disclosure of Annual Reports of Listed Companies Offering Corporate Bonds to the Public (effective 17 January 2016) (Partially Amended) (中国证券监督管理委员会公告[2016] 3号—公布《公开发行证券的公司信息披露内容与格式准则第38号—公司债券年度报告的内容与格式》,《关于公开发行公司债券的上市公司年度报告披露的补充规定》) • Announcement No. 9 of the China Securities Regulatory Commission—Announcement on Issuing the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 39—Contents and Formats of Semi-Annual Reports on Corporate Bonds and the Supplementary Provisions on the Disclosure of Semi-Annual Reports of Listed Companies Offering Corporate Bonds to the Public (effective 11 May 2016) (Partially Amended) (中国证券监督管理委员会公告(2016) 9号—关于发布《公开发行证券的公司信息披露内容与格式准则第39号—公司债券半年度报告的内容与格式》,《关于公开发行公司债券的上市公司半年度报告披露的补充规定》的公告) • Measures for the Suitability Management of Securities and Futures Investors (effective 12 December 2016) (证券期货投资者适当性管理办法) • Announcement No. 34 of the China Securities Regulatory Commission—Provisions on Implementing the Measures for the Suitability Management of Securities and Futures Investors (effective 12 December 2016) (中国证券监督管理委员会公告(2016) 34号—关于实施《证券期货投资者适当性管理办法》的规定) • Guiding Opinions of the China Securities Regulatory Commission on Conducting the Pilot Program of Corporate Bonds for Innovation and Entrepreneurship (effective 4 July 2017) (中国证监会关于开展创新创业公司债券试点的指导意见) • Decision of the China Securities Regulatory Commission to Amend Seven Sets of Rules Including the Measures for the Administration of Securities Registration and Clearing (effective 7 December 2017) (中国证券监督管理委员会关于修改《证券登记结算管理办法》等七部规章的决定) • Notice of the General Office of the National Development and Reform Commission and the General Office of the Ministry of Finance on Further Strengthening the Enterprise (Corporate) Bonds' Capacity of Serving the Real Economy and Strictly Preventing Local Debt Risks (effective 8 February 2018) (国家发展改革委办公厅, 财政部办公厅关于进一步增强企业债券服务实体经济能力严格防范地方债务风险的通知) • Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 19—Correction of Financial Information and Relevant Disclosure (Revised 2018, effective 24 April 2018) (公开发行证券的公司信息披露编报规则第19号—财务信息的更正及相关披露) • Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 19—Correction of

	Financial Information and Relevant Disclosure (Revised 2018, effective 24 April 2018) (公开发行证券的公司信息披露编报规则第19号—财务信息的更正及相关披露) • Announcement No. 12 of the China Securities Regulatory Commission—Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 22—Special Provisions on the Financial Report Information of Red Chip Enterprises Covered by the Pilot Program of Innovation (Trial Implementation) (effective 6 June 2018) (中国证券监督管理委员会公告(2018) 12号—公开发行证券的公司信息披露编报规则第22号—创新试点红筹企业财务报告信息特别规定(试行) • Joint Announcement by PBOC and MOF No. 16 on the Provisional Measures for the Administration on Bond Issuances by Foreign Entities in CIBM (中国人民银行 财政部公告〔2018〕第16 号—全国银行间债券市场境外机构债券发行管理暂行办法).
Local regulations, local government rules	• Opinions of the Shanghai Municipal People's Government on the Implementation in Shanghai of the Interim Regulation on Enterprise Information Disclosure Issued by the State Council (effective 18 October 2014) (上海市人民政府关于本市贯彻国务院发布的《企业信息公示暂行条例》的实施意见)
Self-regulatory rules, industry provisions, and business rules	As issued by the Shanghai Stock Exchange: • Guidelines of Shanghai Stock Exchange for the Information Disclosure Management Bylaws of Listed Companies (effective 19 October 2005) (上海证券交易所上市公司信息披露事务管理制度指引) • Trading Rules of Shanghai Stock Exchange, 2006 • Notice of the Shanghai Stock Exchange on Issuing the Detailed Rules of the Shanghai Stock Exchange for the Implementation of the Exchangeable Corporate Bond Business (effective 17 June 2014) (上海证券交易所关于发布《上海证券交易所可交换公司债券业务实施细则》的通知) • Notice of the Shanghai Stock Exchange on Relevant Issues Concerning Strengthening Risk Controls for Private Placement Bonds of Small and Medium-Sized Enterprises (effective 7 January 2015) (上海证券交易所关于加强中小企业私募债券风险防控工作相关事项的通知) • Shanghai Stock Exchange Interim Measures for the Management of Non-Public Placement of Corporate Bonds, 2015 • (上海证券交易所非公开发行公司债券业务管理暂行办法) • Notice of the Shanghai Stock Exchange on Issuing the Workflow of the Shanghai Stock Exchange for the Preliminary Review of Corporate Bond (effective 20 May 2015) • (上海证券交易所关于发布《上海证券交易所公司债券上市预审核工作流程》的通知) • Notice of the Shanghai Stock Exchange on Issuing the Interim Measures for the Administration of the Business of the Non-Publicly Placed Corporate Bond (effective 29 May 2015) • (上海证券交易所关于发布《上海证券交易所非公开发行公司债券业务管理暂行办法》的通知) • Notice of the Shanghai Stock Exchange on Issuing the Code of Conduct for Corporate Bond Examiners of the Shanghai Stock Exchange (for Trial Implementation) (effective 10 December 2015) • (上海证券交易所关于公布《上海证券交易所公司债券审核人员行为准则(试行)》的通知) • Notice of the Shanghai Stock Exchange on Rolling out the Pilot Program Concerning the Green Corporate Bonds (effective 16 March 2016) (上海证券交易所关于开展绿色公司债券试点的通知)

	• Notice of the Shanghai Stock Exchange on Issuing the Guidelines for Listed Companies' Postponement of and Exemption from Information Disclosure (effective 30 May 2016) (上海证券交易所关于发布《上市公司信息披露暂缓与豁免业务指引》的通知) • Notice of the Shanghai Stock Exchange on Issuing the Guidelines of the Shanghai Stock Exchange on the Business of the Issuance of Corporate Bonds in Manner of Book-Building (effective 30 September 2016) (上海证券交易所关于发布《上海证券交易所公司债券簿记建档发行业务指引》的通知) • Measures for the Suitability Management of Investors in the Bond Market of the Shanghai Stock Exchange (effective 1 July 2017) (上海证券交易所债券市场投资者适当性管理办法) • Notice of the Shanghai Stock Exchange on Amending Certain Clauses Involving Trading in Bonds of the Trading Rules of the Shanghai Stock Exchange and the Detailed Implementation Rules for Trading in Bonds on the Shanghai Stock Exchange (14 April 2017) (上海证券交易所关于修改《上海证券交易所交易规则》及《上海证券交易所债券交易实施细则》涉及债券交易若干条款的通知) • Notice of the Shanghai Stock Exchange on Issuing the Rules of Listing of Corporate Bond (effective 7 December 2018) (上海证券交易所关于发布《上海证券交易所公司债券上市规则》的通知) • Shanghai Stock Exchange Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules on Listing and Transfer of Non-Publicly Placed Corporate Bonds, (effective 7 December 2018) (上海证券交易所非公开发行公司债券挂牌转让规则) • Detailed Rules for the Implementation of Non-Publicly Placed Convertible Corporate Bond by Innovative Start-up Companies (Trial Implementation) (effective 28 February 2019) (创新创业公司非公开发行可转换公司债券业务实施细则) As issued by the Shenzhen Stock Exchange: • Interim Measures for Business Administration on the Non-Publicly Placed Corporate Bonds of Shenzhen Stock Exchange, 2015 (深圳证券交易所非公开发行公司债券业务管理暂行办法) • Membership Management Rules of Shenzhen Stock Exchange (Revised 2015, effective 1 May 2015) (深圳证券交易所会员管理规则) • Notice of Shenzhen Stock Exchange on How to Make a Continued Success in the Information Disclosure Related to Non-Public Placement of Corporate Bonds (effective 29 August 2016) (深圳证券交易所关于进一步做好非公开发行公司债券信息披露相关工作的通知) • Trading Rules of the Shenzhen Stock Exchange (Revised 2016, second revision, effective 30 September 2016) (深圳证券交易所交易规则) • Measures for the Suitability Management of Investors in the Bond Market of Shenzhen Stock Exchange (effective 1 July 2017) (深圳证券交易所债券市场投资者适当性管理办法) • Notice of the Shenzhen Stock Exchange on Further Regulating and Improving Issues Related to the Issuance of Exchangeable Corporate Bonds of the Shenzhen Stock Exchange (effective 7 September 2017) (深圳证券交易所关于进一步规范和完善深圳证券交易所可交换公司债券发行业务相关事项的通知) • Detailed Rules for the Implementation of Non-Publicly Placed Convertible Corporate Bond by Innovative Start-up Companies (Trial Implementation) (effective 22 September 2017) (创新创业公司非公开发行可转换公司债券业务实施细则) • Notice of the Shenzhen Stock Exchange on Issuing the Rules of Listing of Corporate Bonds (effective 07 December 2018) (深圳证券交易所关于发布《深圳证券交易所公司债券上市规则》的通知)

	• Shenzhen Stock Exchange Non-Public (Private) Placement of Corporate Bonds Listing and Trading Rules, (effective 7 December 2018) (深圳证券交易所非公开发行公司债券挂牌转让规则) As issued by the Securities Association of China: • Administrative Measures for the Filing Management of Non-Publicly Placed Corporate Bonds, 2015 (非公开发行公司债券备案管理办法) • Notice of the Securities Association of China on Issuing the Professional Code of Conduct for Corporate Bond Trustees, 2015 (effective 5 June 2015) (公司债券受托管理人执业行为准则的通知) • Non-Publicly Placed Corporate Bonds Filing Notice, 2015 (非公开发行公司债券备案须知) • Notice of the Securities Association of China on Issuing the Self-regulatory Rules for Underwriting of Corporate Bonds, 2015 (Annex: Norms of Corporate Bond Underwriting Practice, Guidelines for Corporate Bond Underwriting Business Due Diligence) (effective 16 October 2015) (公司债券承销业务自律规则的通知 (附: 公司债券承销业务规范, 公司债券承销业务尽职调查指引) • Notice of the Securities Association of China on Repealing the Measures for the Pilot Program Concerning the Short-Term Corporate Bonds of Securities Companies and the Measures for the Pilot Program Concerning Private Placement Bonds for Mergers, Acquisitions and Restructurings (effective 19 October 2015) (中国证券业协会关于废止《证券公司短期公司债券试点办法》,《并购重组私募债券试点办法》的通知) • Corporate Bond Trustee's Guide to Dealing with Default Risks of Corporate Bonds, 2017 (公司债券受托管理人处置公司债券违约风险指引) • Notice of the Securities Association of China on Issuing the Revised Guidelines for the Negative List on the Projects Undertaking of Non-Publicly Placed Corporate Bonds, 2018 (effective 11 May 2018) (修订后的《非公开发行公司债券项目承接负面清单指引》的通知) As issued by the China Securities Depository and Clearing Co., Ltd.: • China Securities Depository and Clearing Co., Ltd. Implementing Rules for Registration and Settlement of Domestic Securities Investments of Qualified Foreign Institutional Investors (1 December 2002) (Revised 2013) (合格境外机构投资者境内证券投资登记结算业务实施细则) • Guidelines of the Shanghai Branch of China Securities Depository and Clearing Co., Ltd. for Registration and Settlement and Clearing of the Private Placement Bonds of Small and Medium-Sized Enterprises (Revised 2014) (中小企业私募债券登记结算业务指南) • Operating Guidelines of China Securities Depository and Clearing Co., Ltd. for the Cross-Market Transfer of Custody of Treasury Bonds (Revised 2015) (国债跨市场转托管业务操作指引) • Detailed Rules for Registration, Depository and Settlement of Bonds of China Securities Depository and Clearing Co., Ltd. (effective 15 June 2015) (债券登记、托管与结算业务细则) • Detailed Rules for the Implementation of Registration and Settlement of Non-Publicly Placed Corporate Bonds of China Securities Depository and Clearing Co., Ltd. (effective 23 July 2015) (非公开发行公司债券登记结算业务实施细则)

	• Business Guidelines for Registration and Settlement of Non-Publicly Placed Corporate Bonds of China Securities Depository and Clearing Co., Ltd., Shanghai Branch (effective 3 July 2017) (非公开发行公司债券登记结算业务指南) • Business Guidelines for Bond Registration and Settlement of China Securities Depository and Clearing Co., Ltd., Shanghai Branch (effective 8 September 2017) (中国结算上海分公司债券登记结算业务指南) • Guidelines of the Shenzhen Branch of China Securities Depository and Clearing Co., Ltd. for the Registration and Settlement of Bonds (effective 20 November 2018) (中国结算深圳分公司债券登记结算业务指南) • Securities Registration Rules of the China Securities Depository and Clearing Co., Ltd. (effective 1 March 2019) (证券登记规则)

CIBM = China Inter-Bank Bond Market, CSRC = China Securities Regulatory Commission, MOF = Ministry of Finance, PBOC = People's Bank of China, SAFE = State Administration of Foreign Exchange.
Source: ABMF SF1; China Law Info Co., Ltd. www.lawinfochina.com.

Appendix 4
Glossary of Technical Terms

business rules	Summary term for the rules and regulations issued by the exchanges
business tax	Tax levied on transactions and income derived in financial services prior to 1 May 2016; replaced by value-added tax
Caishui (财税)	Term often referenced in the public domain with regard to tax administration publications; equivalent to a circular
convertible bond	Bond convertible into equity of the issuer of the bond
corporate bond	Bond issued by a company in the exchange bond market
cross-market transfer	Transfer of debt securities for trading between the market segments of the PRC bond market
dual-listed	Market term for (enterprise) bonds that are listed on the exchange market and also registered in the CIBM
enterprise	Term used in law and regulations for a company
enterprise bond	Bond issued by a state-owned enterprise in the exchange bond market
exchangeable bond	Similar to convertible bond, but may only be exchanged for equity in companies affiliated with the issuer, not the issuer itself
foreign debt registration	Formal filing with SAFE required by an issuer issuing debt securities in an overseas market
general investors	Term used for retail investors or those that do not fall under Qualified Investors
Listing (挂牌转让)	Listing or registration of non-publicly (privately) placed corporate bonds on the exchange
Listing (上市)	Listing of publicly offered corporate bonds on the exchange
measures	Term used for administrative regulations of CSRC and other authorities
members	Securities companies trading on the exchanges
non-public placement, non-public offer, or non-public issuance	Terms used for a private placement in the exchange bond market, with disclosure subject to agreement between issuer and investors, and review by the exchange

offers to Qualified Investor(s)	Issuance method under the public offering concept that is targeted at Qualified Investors only and are reviewed by the exchanges
ordinary investors	Alternative term used to describe public (i.e., non-professional) investors
outright repo	Repo transaction in which debt securities are sold and bought back
Panda bond	Bond issued by nonresident issuers in the CNY-denominated domestic bond market
participants	Nonmember institutions participating on the exchanges
pledged repo	Repo transaction where debt securities are pledged and the pledge is released upon the closing leg of the repo
policy financial bond	Bond issued by the three policy banks
Professional Investor(s)	Synonym for Qualified Investor(s) concept used in the English translation of regulations in the exchange bond market
prospectus	Key disclosure document in the exchange bond market for both public offers and non-public placements
public investors	Synonym for general investors; in the absence of an official definition, those that do not fall under Qualified Investors
public offer	Issuance of debt securities to public and general investors with full disclosure and subject to CSRC approval
Qualified Investor(s)	Professional investor concept in the exchange bond market
scheme manager	Securities company or asset management firm managing the packaging of ABS, their issuance, and payment flows
short-term notes	Debt securities issued in the exchange bond market only by securities companies (in nature similar to commercial paper)
value-added tax	Consumption tax levied on transactions and income derived in the financial services from 1 May 2016; replacing the business tax

Source: ABMF SF1.

Appendix 5
Chinese Technical Terms and Their Interpretations

This list of Chinese technical terms and their interpretations for the bond market relative to typical technical terms in English represent the reference framework for ABMF when compiling this bond market guide. The terms and interpretations were agreed with the regulatory bodies and market institutions in the China exchange bond market and may differ from terms used in other bond market segments in the PRC. For the definition of some of the individual terms, please see the glossary section in Appendix 4.

债券上市预审核申请	Application for preliminary review of bond listing
资产支持证券	Asset-backed securities
竞价	Bidding
大宗交易	Block trading
债券违约	Bond default
面向合格投资者公开发行的债券	Bonds issued only to Qualified Investors
受托管理人	Bond trustee
公司债券受托管理协议	Bond trustee management agreement
簿记询价	Book-building (process)
违约	Breach of contract (in context of event of default)
可转换公司债	Convertible bonds
公司债	Corporate bond
资信评级	Credit rating
资信评级机构	Credit rating agency
分离式可转债	Detachable convertible bond
尽职调查	Due diligence
挂牌（非公开发行公司债券）	Listing and transfer (of non-publicly placed corporate bonds)
企业债	Enterprise bond
可交换公司债券	Exchangeable corporate bond
金融债	Financial bonds
信息披露义务	Information disclosure obligations
募集说明书	Information memorandum (in context of non-publicly placed bonds)
上市	Listing (of publicly offered corporate bonds)

挂牌转让（非公开发行公司债券）	Listing and transfer (registration process) (of non-publicly placed corporate bonds)
上市规则	Listing rules
地方政府债	Local government bond
流通市值	Market value
协议大宗交易	Negotiated block trading
协议大宗交易方式	Negotiated block trading method
协议交易	Negotiated trade
非公开发行（公司债券）	Non-public (private) placement
募集说明书	Offering circular (in context of publicly offered bonds issued only to Qualified Investors)
大公募（公司债券）	Offer to public investors
合格投资者中的机构投资者公募（公司债券）	Offer to Qualified Institutional Investors
小公募（公司债券）	Offer to Qualified Investors
普通投资者	Ordinary investor
熊猫债	Panda bond
托管面值	Par value
债券上市预审核	Preliminary review of bond listing
专业投资者	Professional investor
募集说明书	Prospectus (in context of public offering to general and public investors)
公众投资者	Public investor
公开发行公司债券	Publicly offered corporate bonds
合格投资者中的机构投资者	Qualified Institutional Investors
合格投资者	Qualified Investors
报价	Quotation
预审核	Review
短期债	Short-term notes
交易规则	Trading rules (exchange)
国债	Treasury bond
承销机构	Underwriter
承销	Underwriting

ASEAN+3 Bond Market Guide 2019
Exchange Bond Market in the People's Republic of China

The ASEAN+3 Bond Market Guide series provides country-specific information on the investment climate, rules, laws, opportunities, and characteristics of local bond markets in Asia and the Pacific. It aims to help bond market issuers, investors, and financial intermediaries understand the local context and encourage greater participation in the region's rapidly developing bond markets. This edition focuses on the exchange bond market in the People's Republic of China, which is one of the country's most important bond markets and one of only two that are accessible to foreign investment.

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