III

Inter-Bank Bond Market Characteristics

The China 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 CIBM.

A. Definition of Securities and Debt Financing Instruments

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

1. Definitions in the Company Law and Relevance of Securities 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.

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. However, the term "corporate bonds" is typically associated with bonds issued and traded in the exchange bond market (see also section 3). Instead, the term "enterprise bonds" is used in the CIBM. At the same time, enterprise bonds (企业债) refer to bonds that are issued by a nonfinancial company, with a maturity of more than 1 year; the issuers of enterprise bonds are mainly state-owned companies. The bonds are regulated and approved by the NDRC.

Originally, enterprise bonds (企业债) referred to the bonds issued by central government agencies, SOEs, and state-owned holding companies affiliated with the NDRC. With the progress of privatization, the delineation between corporate bonds and enterprise bonds has become less strict.

The Securities Law does not apply to the CIBM, only to the exchange bond market. In the case of the issuance of ABS (资产支持证券) in the CIBM, even though the term "securities" is used in their description, they are recognized as a type of debt financing instrument in the CIBM.

As the market regulatory authority, the PBOC issues the applicable instrument definitions (see also next section).

2. Debt Financing Instruments in People's Bank of China Regulations

In their decrees, measures, and regulations, the PBOC and NAFMII use the term "debt financing instrument," which refers to any marketable debt instrument issued in the CIBM and includes commercial paper, SCP, MTN, collective bonds issued by regional enterprises, SME collective notes, PPN, ABN issued by nonfinancial enterprises, project revenue notes, standardized notes, and green debt financing instruments.

The term securities is not used in the context of the CIBM except in the case of ABS. The issuers are typically referred to as enterprises.

The PBOC laid the foundation for many of these instrument types with the promulgation of PBOC Decree No. 1 in 2008, which made effective the Rules for the Registration and Issuance of Debt Financing Instruments of Non-Financial Enterprises.

Pursuant to the Measures for the Administration of the Issuance of Financial Bonds in the National Inter-Bank Bond Market, "financial bond" refers to negotiable financing instruments issued in the CIBM by a financial institution legally established in the territory of the PRC for the purpose of guaranteeing the payment of the principal plus interest as agreed to between the parties concerned, including CNY-denominated financial bonds, as well as financial bonds denominated in foreign currency.

The PBOC Guidelines on the Issuance of Non-Financial Enterprises Medium-Term Notes in the Inter-Bank Bond Market define "medium-term notes" as any debt financing instruments issued in phases in the CIBM.

3. Terms Used in China Central Depository & Clearing Co., Ltd. Rules

The Table of Terms in the CCDC Account Business Guidelines identifies CCDC as the general registration and depository organization for Treasury bonds authorized by the MOF and the general registration and depository organization for enterprise bonds designated by the NDRC.[51] While the guidelines do not include a separate definition of bonds for the CIBM, they do refer to bond accounts.

According to the CCDC glossary in English, corporate bonds (公司债) refer to bonds that are issued by a nonfinancial company and have a maturity of more than 1 year. The issuers of corporate bonds are mainly listed companies. The bonds are regulated and approved by CSRC and typically listed on the exchange bond market.

4. References in Shanghai Clearing House Co., Ltd. Rules and Documentation

In the English translation of its Rules on Registration, Custody, Clearing and Settlement of Bonds, provided for reference only on its website, SHCH makes reference to bonds and nonfinancial corporate debt financing instruments, but it does not include a separate or distinct definition of either term.[52] Instead, reference is made to the underlying measures and rules for the CIBM issued by the PBOC. Investor accounts in SHCH are also referred to as bond accounts.

In its service agreements, "financial products" is used as a summary term for the instruments registered, cleared, settled, and safekept at SHCH.

[51] See http://www.chinabond.com.cn/cb/eng/zqsc/ywgz/zyjsgs/sczrjkxh/20160122/147364086.shtml.
[52] See http://english.shclearing.com/csd/rules/201705/t20170510_258331.html?xyz=0.2628135304999244.

B. Types of Bonds and Notes

Bonds and notes issued in the China bond market include many different instruments issued by a variety of issuers and catering to a number of different investor types. Not all debt instruments may be found in every market segment. In the CIBM, the main bond classes include government bonds, financial bonds, and enterprise bonds.

1. Government Bonds

Government bonds consist of debt securities issued by the central government and those issued by local governments. Issuers include the MOF, local governments, and public organizations of the central or local governments (Table 3.1). If issued and traded in the CIBM, government and government-like bonds are also subsumed under the general term debt financing instruments.

Table 3.1: Government and Related Bonds Deposited by Market Segment
(CNY billion)

Debt Instrument	CIBM	Commercial Banks' Counter Market	Exchange Bond Market	Other
Government bonds 政府债券	35,351.84	822.38	1,047.08	1.59
Central government bond (Treasury bonds) 记账式国债	14,697.00	20.96	586.71	1.44
(Electronic) Savings bonds 储蓄国债(电子式)	0.00	798.49	0.00	0.00
Local government bonds 地方政府债	20,654.84	2.93	460.37	0.15
Central bank bills	22.00	0.00	0.00	0.00
Government-backed (agency) bonds 政府支持机构债券	1,625.84	0.00	43.29	3.37
Policy bank financial bonds 政策性银行债	15,622.46	32.24	0.00	40.00
China Development Bank 国家开发银行	8,632.37	31.70	0.00	40.00
Export–Import Bank of China 中国进出口银行	2,735.03	0.08	0.00	0.00
Agricultural Development Bank of China 中国农业发展银行	4,255.05	0.46	0.00	0.00
Total	**52,622.14**	**854.62**	**1,090.37**	**44.97**

CIBM = China Inter-Bank Bond Market, CNY = Chinese renminbi.
Note: Data as of December 2019.
Source: ASEAN+3 Bond Market Forum Sub-Forum 1 team adapted from ChinaBond. 2019. *December Monthly Bulletin of Statistics: 3-04 Bond Depository Balance* (登录中国债券信息网:统计月报: 3-04 各市场债券托管量).

a. 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; the discount bonds are traded only in the CIBM. Coupon bond tenors include 1, 2, 3, 5, 7, 10, 20, 30, and 50 years. There were no 20-year bonds outstanding at the time of the compilation of this bond market guide. The times to maturity for discount bonds are 91, 182, and 273 days (see also section C).

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 CIBM and the exchange market, with the CCDC generally acting as depository. Central government bond positions are fungible between the two markets.

b. (Electronic) Savings Bonds

In 2006, electronic savings bonds were launched in the China bond market, adding a new instrument for the government to cover its budget deficit and fund public projects. The government had set up a computer system linking large commercial banks to allow individuals to purchase, manage, and redeem the savings bonds electronically. In turn, these banks enable individual investors to hold accounts to purchase electronic savings bonds. While this instrument is not a product for the CIBM as such, it does get included in the statistics on government bonds.

Savings bonds are (i) issued by the MOF, (ii) sold exclusively to individuals in the commercial banks' counter market at fixed coupons that are exempt from tax on interest, and (iii) not tradable in either the CIBM or the exchange market.

c. 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 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.

Local government bonds are issued by tender or as a target issue through the CCDC platform for new issues and traded in both the CIBM and exchange market, with the bonds generally deposited with CCDC. Local government bond positions are fungible between the two markets.

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.

According to the MOF, as of the end of September 2018, the outstanding amount of local government bonds was CNY18.26 trillion, among which the general bonds balance amounted to CNY10.88 trillion and the special bonds balance amounted to CNY7.38 trillion. The aggregate amount was smaller than the overall limit of CNY21.0 trillion set by the MOF and approved by the National People's Congress.[53]

At the end of September 2018, local government bonds had an average remaining tenor of 4.6 years, with an average of 4.5 years for general bonds

[53] See http://yss.mof.gov.cn/zhuantilanmu/dfzgl/sjtj/201810/t20181017_3048969.html.

and 4.7 years for special bonds. The average interest rate stood at 3.50%, with an average of 3.49% for general bonds and 3.51% for special bonds.

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. 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).[54]

2. Government-Backed (Agency) Bonds

a. Railway Bonds

China Railway Corporation (formerly part of the Ministry of Railways) issues railway bonds upon approval by the NDRC. Railway bonds are issued through the CCDC or SHCH platform for new issues, deposited with CCDC or SHCH, and traded in the CIBM.

b. Central Huijin Bonds

Central Huijin Investment Ltd. is a domestic investment subsidiary of the PRC's sovereign wealth fund, the China Investment Corporation. The bonds are issued upon approval by the NDRC. They are issued through the CCDC or SHCH platform for new issues, deposited with CCDC or SHCH, and traded in the CIBM.

3. Financial Bonds

Financial bonds are bonds issued by regulated financial institutions such as policy banks, commercial banks, and non-bank financial institutions.

The Law of the People's Bank of China (中華人民共和國中國人民銀行法), the Provisions Governing the Issuance of Financial Bonds in the National Inter-Bank Bond Market and its Related Measures (全国银行间债券市场金融债券 发行管理操作规程), and the Measures for the Administration of the Issuance of Financial Bonds in the National Inter-Bank Bond Market (全国银行间债券市场金融债券发行管理办法) define "financial bonds" as negotiable financing instruments issued in the CIBM by a financial institution legally established in the territory of the PRC for the purpose of guaranteeing the payment of the principal plus interest as agreed to between the parties concerned.

Financial institutions include policy banks, commercial banks, finance companies of enterprise groups, non-bank financial institutions, and other institutions.

The PBOC approves and supervises the issuance of financial bonds; without approval from the PBOC, no financial institution may issue any bond.

[54] 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.

a. Policy Bank Financial Bonds

PFBs are issued by the policy banks and at one time comprised 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 that of government bonds and local government bonds combined.

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

i. **China Development Bank.** The China Development Bank bond issuance represents the largest portion among the three types of PFBs; it is the world's biggest development finance institution.
ii. **Agricultural Development Bank of China.** The Agricultural Development Bank of China provides policy financial support to the agriculture sector.
iii. **Export–Import Bank of China.** Export–Import Bank of China 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.

Policy banks have to submit to the PBOC an application of issuing bonds on an annual basis. The application should include the proposed volume of issuance, time frame, method of issuance, and other relevant details. PFBs are issued through the CCDC or SHCH platform for new issues, generally deposited with CCDC or SHCH, and traded in the CIBM.

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 CIBM and the exchange bond market.

b. Commercial Bank Bonds

Commercial bank bonds are issued by commercial banks that are established in the domestic market and include straight bonds (general financial bonds); subordinate bonds; Tier-2 capital instruments including hybrid capital bonds; SME loan bonds; as well as special financial bonds for agriculture, rural areas, and farm-related sectors. Most recently, perpetual bonds were added as another newly developed commercial bank bond type. In January 2019, the Bank of China became the first domestic bank to issue a perpetual bond, raising CNY40 billion.

Commercial bank bonds are issued through the CCDC platform for new issues, generally deposited with CCDC, and traded in the CIBM.

c. Non-Bank Financial Bonds

Issuers of these bonds are non-bank financial institutions established in the domestic market and include insurance companies, finance or leasing companies, and auto-finance companies. Insurance companies may issue senior and subordinated bonds. Among these issuers, the issuance of bonds by insurance companies is subject to approval from the CBIRC. Non-bank financial bonds are issued through the CCDC platform for new issues, generally deposited with CCDC, and traded in the CIBM.

Non-bank financial bonds issuers also include asset management firms and securities companies. For these two types of issuers, the bonds are issued through the SHCH platform for new issues, deposited with SHCH, and traded in the CIBM.

4. Enterprise Bonds

Enterprise bonds, a categorization used for debt instruments not issued by financial institutions, are issued by a number of enterprises or agencies funded or owned by the government. Although similar in nature, the term enterprise bond represents a distinct asset class from corporate bonds, which are issued and traded only in the exchange bond market. Enterprise bonds also include collective bonds issued by local enterprises, project revenue bonds, and extendable bonds. The issuer of nonfinancial enterprise debt instruments in the CIBM has to register the issuance with NAFMII.

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 nonlisted SOEs or government-backed entities. NDRC is responsible for supervising the issuance of enterprise bonds, including collective bonds. For historical reasons, enterprise bonds have always been supervised by the NDRC as the 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 2005, the PRC's exchange bond market started, which presented 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.[55] As a result, many enterprise bonds became both exchange-listed and NAFMII-registered—the market term for such practice is "dual-listed."[56] At the end of 2017, about one-third of enterprise bonds were originally issued and traded in the exchange bond market, with two-thirds originally registered in the CIBM.[57]

a. Enterprise Bonds

Enterprise bonds are the bonds issued by enterprises that are solely funded by or owned by the central government or a local government and/or an agency, or by listed or nonlisted companies controlled by the state. The issuance of enterprise bonds is subject to NDRC approval or registration.

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[55] Per Standard Chartered Bank, government bonds, local government bonds, and enterprise bonds—but not PFBs and corporate bonds—are fungible between the exchange market and the CIBM.
[56] W. Wang et al. 2015. *One Bond, Two Prices: The Demand Effect of Yield-Chasing Retail Investors*. Booth School of Business Working Paper. Chicago; and H. Chen et al. 2018. *Pledgeability and Asset Prices: Evidence from the Chinese Corporate Bond Markets*. Booth School of Business Working Paper. Chicago.
[57] 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.*

There are four types of enterprise bonds: central enterprise bonds, local enterprise bonds, local enterprise collective bonds, and project revenue bonds. Enterprise bonds are uniformly issued into both the CIBM and exchange markets through the CCDC platform for new issues, generally deposited with CCDC, and traded in the CIBM and exchange bond market. However, in 2018 and 2019, there was no record of issuances of local enterprise collective bonds in the PRC.

The issuance of enterprise bonds by a finance company of an enterprise group is also subject to the eligibility criteria set by, and requires the approval of the PBOC.

b. Local Enterprise Bonds

One important component of enterprise bonds are local enterprise bonds, also referred to as municipal corporate bonds (城投债), which represented 87.8% of enterprise bonds outstanding at the end of 2019 (Table 3.2). Municipal corporate bonds are bonds issued by local-government-related financing vehicles, which are SOEs to support local infrastructure investment, both at the provincial and city levels. Notably, municipal corporate bonds' credit status is the same as other regular corporate bonds.

Table 3.2: Enterprise Bonds Depository Balance by Market Type at the End of 2019
(CNY billion)

Type of Enterprise Bond		CIBM	Exchange Bond Market	Other	Total	Share
Central enterprise bond (中央企业债券)		269.5	91.0	2.7	363.2	12.2%
Local enterprise bond (地方企业债券)	Common bond (普通企业债)	1,818.7	687.6	0.2	2,506.5	84.2%
	Collective bond (集合企业债)	9.1	1.4	0.0	10.6	0.4%
	Project revenue bond (项目收益债)	93.8	4.1	0.0	97.9	3.3%
	Subtotal	1,921.7	693.1	0.2	2,615.0	87.8%
Total outstanding (企业债券托管量)		**2,191.1**	**784.1**	**2.9**	**2,978.2**	**100.0%**

CIBM = China Inter-Bank Bond Market, CNY = Chinese renminbi.
Source: China Central Depository & Clearing Co., Ltd. 2019. *December Monthly Bulletin of Statistic: 3-04 Bond Depository Balance (by market type)*.

When issuing local enterprise bonds, 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 in complicated circumstances) from the date the bond declaration materials are received by NDRC.[58] For further reading, an Enterprise Bond Issuance Approval Guide (企业债券发行核准办事指南) is available in Chinese.[59]

[58] Information provided by Zhong Lun Law Firm.
[59] See http://services.ndrc.gov.cn:8080/ecdomain/portal/portlets/bjweb/newpage/guide/guidService.jsp?idseq=7a75a98d77ce45a79f946fda60db2811.

Local enterprise bonds are fungible between the CIBM and the exchange bond market.

c. Project Revenue Bonds

Project revenue bonds are enterprise bonds that use the proceeds to finance and implement specified projects and the repayment of principal and interest comes mostly or entirely from the operational earnings after the completion of the project. The project developer or its actual controller is the issuer. Project revenue bonds are fungible between the CIBM and the exchange bond market.

d. SME Collective Notes

Responding to market demand, NAFMII launched the SME collective notes program in November 2009 to provide a long-term funding channel for SMEs. SME collective notes (区域集优中小企业集合票据) are debt financing instruments issued by (between two and ten) licensed enterprises in the CIBM under one product design, a common title, one credit enhancement option, and one issuance and registration option, where principal and interest are repaid within an agreed period. SME collective notes are not fungible between the CIBM and the exchange bond market. SME collective notes are settled at SHCH.

Since the issuers are a group of SMEs, the SME collective notes are regarded as a type of enterprise-issued debt financing instrument. The arrangement of the issuance by a group of SMEs is organized by the initiator. Each issuing enterprise has its own liabilities corresponding to their participation in the respective issuance amount, but all SMEs use the common bond name, collect proceeds from the issuance, and make payments collectively. The typical maturity for SME collective notes is 3–5 years.

Following the first default on SME collective notes in 2014, their issuances have been inactive since 2015 (Table 3.3).

Table 3.3: SME Collective Notes Issuance and Outstanding Deposits at SHCH
(CNY billion)

SME Collective Notes	2013	2014	2015	2016	2017	2018	2019
Issuance Amount	6.1	0.4	0.4	0.0	0.0	0.0	0.0
Amount Outstanding	9.9	8.8	5.6	0.6	0.4	0.0	0.0
Change in Deposited Amount at SHCH	–	(1.1)	(3.2)	(5.1)	(0.2)	(0.4)	0.0

– = data not available, () = negative, CNY = Chinese renminbi, SHCH = Shanghai Clearing House, SME = small and medium-sized enterprise.
Source: SHCH Monthly Reports, 2014–2019 (web) (统计月报 表二 上海清算所固定收益产品发行量 / 表四上海清算所固定收益产品托管量).

e. Extendable Bonds

Extendable bonds are issued in the CIBM by nonfinancial enterprises. They do not have a fixed maturity and the issuer has the option to extend the maturity or redeem the bonds. Because the issuer is a nonfinancial enterprise, extendable bonds are regarded as a type of enterprise bond.

f. Medium-Term Notes

In the China bond market, the term MTN does not necessarily represent a particular instrument type issued under a program but is used as a general description for publicly offered debt financing instruments issued by nonfinancial enterprises and denominated in Chinese renminbi and with a maturity of more than 1 year; tenors are usually 3–5 years and can be up to 10 years. MTNs are debt financing instruments that can be issued in tranches following a successful registration with NAFMII.

The PBOC introduced the MTN concept in the CIBM in April 2008, offering less stringent issuance conditions and processes for the financing activities of domestic enterprises and to facilitate domestic bond market development.

An MTN is tradable and transferable among institutional investors in the CIBM. MTN are not fungible between the CIBM and the exchange bond market.

5. Panda Bonds

A Panda bond is not a specific instrument but represents the official term used to denote a CNY-denominated bond issued by a nonresident entity in the PRC. Panda bonds can be issued in both the CIBM and the exchange bond market. 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 China bond market.

The PBOC has established the Panda bond market in the CIBM as a dedicated issuing market among prime credit issuers. Its regulations require the issuer to have a track record of offering debt instruments in other markets and a proven ability to repay such debt.

In 2010, the PBOC, the 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, resulting in a significant liberalization of CNY-denominated remittances out of the PRC resulting from Panda bond issuance.

In September 2018, 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 Bonds Issued by Overseas Issuers on the National Inter-Bank Bond Market (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), which are known as the 2018 Interim Measures; at the same time, the 2010 measures mentioned above were formally repealed.

The 2018 Interim Measures further clarified the qualifications and filing procedures for nonresident institutions to issue Panda bonds and laid out provisions on information disclosure, issuance filing, custody, and 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 nonresident institutions to issue Panda bonds in the CIBM, aligned domestic institutional rules with international standards, and helped further the internationalization of the China bond market. The 2018 Interim Measures also clarified that issuers from Hong Kong, China; Macau, China; and Taipei,China are considered overseas institutions for the purpose of Panda bond issuance.

NAFMII subsequently issued the Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (for Trial Implementation) in January 2019 to further prescribe the registration process and other details including information disclosure for such issuances. In these guidelines, issuance requirements for Panda bonds privately placed to DIIs are less stringent in comparison to public offerings in the PRC with regard to the selection of language and the contents of disclosure information; for example, the issuer and DIIs 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 2019 NAFMII Guidelines state that "in an offering of debt financing instruments by an overseas nonfinancial enterprise, the rules or requirements of the relevant regulatory authorities in the PRC shall apply to the accounting standards and audit standards under which the financial statements of such issuer are prepared." This may be interpreted as saying that financial accounting and reporting standards can be accepted by regulators as evidence in the market of the domicile of the nonresident issuer. The 2018 Interim Measures clarify that the accounting standard will need to have been recognized by the MOF or the Panda bond issuer will need to formally disclose any significant differences between the accounting standard used and that of the PRC.

An overseas parent company providing an unconditional and irrevocable joint liability guarantee to its wholly-owned financing vehicle issuing Panda bonds in the PRC shall comply with the information disclosure requirements stipulated by NAFMII.

According to the PBOC, between January 2005 and the end of November 2019, foreign institutions issued 137 Panda bonds with an aggregate value of CNY249 billion.

6. Asset-Backed Securities and Asset-Backed Notes

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 are to be used for the payment of principal and interest of the issued ABS.[60]

Currently, three types of asset securitization exist in the PRC: enterprise ABS, credit ABS, and ABN. Enterprise ABS are supervised by CSRC, issued in the exchange bond market, and registered at and deposited with CSDC. The asset securitization types issued in the CIBM are explained below.

ABN (非金融企业资产支持票据) are one type of nonfinancial enterprise debt financing instrument supervised by NAFMII, while ABS are not.

a. Credit Asset-Backed Securities

According to the Administrative Measures for the Pilot Management of Credit Asset Securitization (信贷资产证券化试点管理办法) issued by the PBOC and (then) CBRC on 20 April 2005, and the Administrative Measures for the Pilot Management of Credit Asset Securitization of Financial Institutions (金融机构信贷资产证券化试点监督管理办法) issued on 7 November 2005, ABS refer to income securities in which a banking financial institution acts as the initiator, entrusting credit assets to a trustee, following which the ABS are issued by the trustee, who will also pay income to the investors with cash generated from the underlying assets.

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

Credit ABS (信贷资产支持证券) are mainly supervised by the CBIRC and the PBOC, and mainly traded on the asset-backed commercial paper platform in the CIBM; trust companies play a role as trustee institutions in the course of the securitization of credit assets.

Credit ABS are issued by a special purpose trust and trustee institution (trust company), representing the shares of beneficial rights under a special purpose trust. Subject to the trust property, the trustee institution shall pay income from the ABS to the investor. Credit ABS are mainly issued and traded in the CIBM, but can also be issued and traded across markets. The securities are registered at and deposited with CCDC.

b. Asset-Backed Notes

ABN are issued under the Guidelines on Asset-Backed Notes of Non-Financial Enterprises (非金融企业资产支持票据指引), which were issued by NAFMII in 2012 and revised in 2017. The guidelines were issued to implement the government's policy intention to actively and steadily reduce corporate leverage, taking measures to revitalize existing assets and standardize and promote the implementation of asset securitization by enterprises.

An ABN is considered a debt financing instrument in the CIBM. The note is supported by the predictable cash flow generated by a specific asset of a corporate issuer and it includes an agreement to repay the principal and interest within a certain period. ABN are usually sold by large enterprises, non-banking financial institutions, or multiple SMEs to the trustees. The trustees will use these assets to support the issuance of commercial notes with tenors of 3–7 years to CIBM investors.

In the context of ABN, nonfinancial enterprises are referred to as "initiating institutions" or "sponsors" that use structured methods to issue a financing tool through an issuing vehicle to achieve financing. The cash flows generated by the underlying assets are used as income support. The issuing vehicle may be a special purpose trust, a special purpose company, another special purpose vehicle approved by NAFMII, or it may be an initiator itself. The ABN are registered at and deposited with SHCH.

With the publication of the revised Rules and Procedures for the Registration of Debt Financing Instruments of Non-Financial Enterprises for Public Offering in April 2020 (effective 1 July 2020), the public offering and issuance under a shelf-registration was also extended to ABN.

C. Money Market Instruments

Money market instruments are short-term debt instruments, typically issued by the government and the PBOC. They may also be issued by the private sector in the form of commercial paper or SCP, which are instruments specific to the CIBM. Money market instruments generally have maturities of 1 year or less; in the United States (US), commercial paper typically has a tenor of no more than 270 days and in international markets, no more than 365 days; in the China bond market, commercial paper may be issued with a maturity of up to 1 year.

1. Instruments Issued by the Government

a. Discount Central Government Bonds

Book-entry discount central government bonds are issued by tender through the CCDC Bond Issuance System with maturities of 91 days, 183 days, and 273 days.[61] They are traded in both the CIBM and the exchange market, and are generally deposited with CCDC.

2. Central Bank Bills Issued by the People's Bank of China

Central bank bills are short-term collateralized debt obligations issued by the PBOC to commercial banks acting as primary dealers.

Central bank bills represent a monetary policy tool other than, for example, reverse repo (see also section 6 in this chapter) for the PBOC in its open market operation to adjust the monetary base, manage the money supply, or reduce commercial banks' loanable excess funds and reserves. The PBOC conducts its open market operation via the CIBM. Consequently, central bank bills are the most actively traded instrument in the CIBM.

The term to maturity for central bank bills is usually less than 1 year but may sometimes be extended to up to 3 years. Central bank bills are issued through the PBOC's open market operation system and deposited with CCDC for trading in the CIBM.

3. Instruments issued by the Corporate Sector

Corporate money market instruments in the China bond market are typically either commercial paper or repo agreements (see next section). Two types of commercial paper are typically issued in the CIBM: one with a tenor of 1 day to 1 year, with most tenors between 271 days and 365 days; and the second is the so-called super-short-term commercial paper, or SCP, with a tenor from 1 day to 270 days. In effect, SCP represents a shorter product within the commercial paper category.

a. Commercial Paper (Short-Term Financing Bill)

Article 20 of the Administrative Measures for Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market, promulgated by the PBOC in April 2008, stipulates that these measures also apply to short-term financing bills. Subsequently, NAFMII published its Guidelines on the Issuance of Commercial Paper of Non-Financial Enterprises in the Inter-Bank Bond Market. With these regulations, the PBOC and NAFMII effectively introduced the concept of a short-term financing bill to the CIBM.[62]

A short-term financing bill (official name) is a type of commercial paper and is defined as a note issued by domestic corporations that promise the payment of principal and interest within the stipulated period, which cannot exceed 1 year. Short-term financing bills are subject to registration with NAFMII and the supervision of the PBOC. They are presently deposited with SHCH and traded in the CIBM. When first issued, commercial paper was deposited with CCDC.

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[61] In relation to the CCDC Bond Issuance System as well as other issuance systems, please refer to section E in this chapter.

[62] PBOC. 2008. Administrative Measures for Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具管理办法) (effective from 15 April 2008); PBOC Decree No. 1; NAFMII. 2008. Guidelines on the Issuance of Commercial Paper of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业短期融资券业务指引) (effective from 16 April 2008).

The term commercial paper refers to any debt financing instrument maturing within 1 year issued in the CIBM by nonfinancial enterprises. According to Article 2 of the NAFMII Rules for the Registration and Issuance of Debt Financing Instruments of Non-Financial Enterprises in the Inter-bank Market (非金融企业债务融资工具注册发行规则), last revised on 6 November 2015, “debt financing instrument” means any marketable securities issued in the CIBM by an incorporated nonfinancial enterprise. Please note that these instruments do not represent securities as defined under the Securities Law (see also section A.1).

Pursuant to Article 4 of the 2008 NAFMII Guidelines on the Issuance of Commercial Paper of Non-Financial Enterprises in the Inter-Bank Bond Market, the total outstanding amount of commercial paper issued must be less than 40% of the issuer's net assets. Article 5 of the guidelines states that proceeds from the issuance of commercial paper should be used for the issuer’s production or operating activities that are in compliance with applicable national laws, regulations, and policies.

The specific use of proceeds must be disclosed clearly in its offering document (prospectus). Any change made to the use of proceeds before maturity is subject to prior disclosure. Such information disclosure to the CIBM needs to be made in accordance with the 2017 NAFMII Rules for Information Disclosure on Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (for more information on continuous disclosure in the CIBM, please see Chapter II.G).

According to Article 10 of the 2008 NAFMII guidelines, any commercial paper may be traded and transferred among institutional investors participating in the CIBM, starting from the business day immediately following the commercial paper’s day of book-entry at an accredited securities depository.

b. Super Short-Term Commercial Paper

On 21 December 2010, NAFMII published its Rules and Procedures for Super Short-Term Commercial Paper Business of Non-Financial Enterprises in the Inter-Bank Bond Market (Trial).[63]

The official designation “super short-term commercial paper” refers to any debt financing instrument maturing within 270 days issued in the CIBM. The issuer must be a nonfinancial enterprise that has legal person status and a high credit rating in the CIBM. SCP are traded on CFETS and its issuance documents are disclosed through the Chinamoney (CFETS) Network. When issuing SCP, an enterprise shall announce the issuance documents (prospectus) at least 1 working day before the issue date.

SHCH provides the services of registration, depository, and settlement for SCP. The use of proceeds from SCP is limited to working capital, similar to the case of commercial paper, and shall not be used for long-term investment.

4. Negotiable Certificates of Deposit

An NCD (同业存单) is a book-entry time deposit certificate issued by deposit-taking financial institutions (banks) in the CIBM. Issuers of NCD are mainly small and medium-sized banks such as urban commercial banks whose investment entities are

[63] NAFMII. 2010. Rules and Procedures for Super Short-Term Commercial Paper Business of Non-Financial Enterprises in the Inter-Bank Bond Market (Trial) (银行间债券市场非金融企业超短期融资券业务规程(试行) No. 22.

national interbank lending market members (全国银行间同业拆借市场成员). The main investors in NCD issued in the CIBM are fund management companies and fund products, as well as large commercial banks.

Unlike in many developed financial markets, where the term NCD refers to a bank product outside the bond or money market, NCD issued in the PRC are considered a debt instrument tradable in the CIBM. In the PRC, NCD are not contained in a bank's general deposits and are not subject to any reserve requirements. Due to the typical tenor of an NCD, it is considered a money market instrument. At the same time, due to its integral role in financing and trading in the CIBM, NCD are often subsumed in bond trading and other debt financing instrument statistics.

In August 2013, the PBOC decided to allow the issuance of NCD in the CIBM to promote interest rate liberalization and offer relevant policies as a prelude to the market-oriented reform of deposit interest rates.[64] Hence, NCD function as substitutes for interbank deposits, improving the interest rate curves of the Shanghai Interbank Offered Rate (SHIBOR) quotes in the interbank lending market. Since 2014, the NCD market has undergone significant development: NCD are also used in repo transactions since NCD liquidity is high; as a result, the holding balance of NCD constituted about 47.2% of all assets under deposit at SHCH at the end of October 2019.[65]

NCD are a standardized financial product and they may be issued with a fixed interest rate or floating interest rate. Following PBOC regulations in 2017, the term of the fixed interest NCD may not be more than 1 year and is typically set at tenors of 1 month, 3 months, 6 months, 9 months, or 1 year. The interest rate is referenced to the SHIBOR for the same period. A floating rate NCD carries an interest rate commensurate with the SHIBOR. About 5% of the NCD issuance volume are floating rate NCD. A deposit-taking financial institution may, within its issuance limit amount for the current year, determine the issue amount and duration for each NCD, but a single-issuing amount shall not be less than CNY50 million.

5. Repurchase Agreements

A 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 the same bonds or notes back from the initial buyer (repo-buyer, effectively a money lender) at a pre-agreed price on a pre-agreed designated future date after a pre-agreed fixed period of time.

Repo transactions in the China bond market feature one of two styles: pledged repo or outright repo. The vast majority of bond repos in the PRC are pledged repo transactions, which amount to roughly 97% of total transaction volume, while outright repos amount to only about 3%. For more details on repo in the China bond market, please refer to Chapter IV.G.

6. Reverse Repurchase Agreements

The PBOC uses reverse repo in its open market operation as one of the tools to carry out its monetary policy objectives. Reverse repo represents a transaction in which the PBOC provides cash liquidity to its constituents or the market at large by purchasing specific debt financing instruments held by those constituents through a bidding process.

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[64] PBOC regulations referring to the scope of general deposits include PBOC Announcement No. 209 (2011), PBOC Announcement No. 387 (2014), PBOC Announcement No. 105 (2015), PBOC Announcement No. 184 (2015), and PBOC Announcement No. 233 (2015).
[65] Shanghai Clearing House. 2019. *October Monthly Report.* www.shclearing.com/sjtj/tjyb/.

Reverse repo transactions commonly have a tenor of 7 days, but may also be concluded for longer or shorter periods. At the end of the reverse repo tenor, the PBOC will sell back the same securities in return for cash.

Please also see Chapter IV.G for a comprehensive description of the inter-bank bond repo market.

D. Segmentation of the Market

Table 3.4 provides an overview of the par value of debt financing instruments issued in the CIBM, detailed into the different categories and types of instruments reviewed in section B of this chapter.

Table 3.4: Debt Financing Instrument Issuance in the CIBM
(CNY billion)

Instrument	2014	2015	2016	2017	2018	2019
Deposited with China Central Depository & Clearing Co., Ltd.						
Government bonds	1,569.6	1,861.2	2,945.8	3,866.2	3,541.1	4,009.1
Local government bonds	386.1	3,590.1	6,042.8	4,358.1	4,165.2	4,362.4
Policy bank financial bonds	2,221.1	2,413.9	3,347.0	3,201.5	3,434.0	3,660.2
Government-backed (agency) bonds	193.0	168.5	140.0	246.0	253.0	165.0
Commercial bank bonds and notes	80.4	187.4	365.7	381.7	515.5	433.0
Tier 2 and 1 (2019) capital instruments	344.7	251.9	257.4	482.4	400.7	1,164.6
Financial bonds (non-bank financial institutions)	–	–	90.5	73.4	185.3	187.5
Commercial paper of securities companies	386.1	226.7	88.8	31.2	–	–
Enterprise bonds	673.3	1,169.9	592.6	373.1	241.2	360.9
Asset-backed securities and similar	97.5	245.8	359.1	597.2	931.8	963.5
CCDC Subtotal	**5,951.8**	**10,115.5**	**14,229.7**	**13,610.8**	**13,667.8**	**15,306.1**

continued on next page

Table 3.4 *continued*

Instrument	2014	2015	2016	2017	2018	2019
Deposited with Shanghai Clearing House Co., Ltd.						
Commercial paper (except for SCP)	1,476.8	1,299.9	726.2	434.0	620.8	892.7
SCP	1,099.6	2,294.4	2,719.5	1,941.2	2,647.1	3,136.4
Medium-term notes	936.8	1,241.7	1,099.7	1,028.2	1,678.1	1,835.2
Private placement notes	1,024.0	877.9	602.9	494.0	544.4	616.5
Financial bonds (non-policy banks)	42.5	82.5	56.0	62.0	80.5	202.5
Green debt financing instruments	–	–	8.0	9.9	17.8	31.8
Government-backed agency bonds	60.0	60.0	85.0	40.0	-	207.0
Asset-backed notes and asset-backed securities	8.9	10.5	51.4	58.1	126.1	288.7
Other notes	1.2	5.5	3.9	2.1	0.0	1.4
SHCH Subtotal	**4,649.9**	**5,872.4**	**5,352.5**	**4,069.5**	**5,714.8**	**7,212.3**
Total debt financing instruments (other than NCD)	10,601.7	15,987.8	19,582.2	17,680.3	19,382.6	22,518.4
Negotiable certificates of deposit	897.6	5,297.6	12,993.1	20,187.2	21,083.2	17,970.6
Total debt financing instruments in CIBM	**11,499.2**	**21,285.4**	**32,575.3**	**37,867.5**	**40,465.8**	**40,489.0**

CCDC = China Central Depository & Clearing Co., Ltd.; CIBM = China Inter-Bank Bond Market; CNY = Chinese renminbi; NCD = negotiable certificates of deposit; SCP = super short-term commercial paper; SHCH = Shanghai Clearing House.
Note: ABS deposit balances have been diminishing toward nil and are no longer evident at SHCH.
Sources: CCDC. 2013. *Annual Review* (English); CCDC. 2017. *Bond Market Statistical Analysis Report 2014–2017*; CCDC. 2017. *Annual Report 2016–2017*; CCDC. 2017. *Bond Market Operation Analysis*; CCDC. 2018/12 统计月报: 2-01 债券发行量(按券种); SHCH. 2017. *Yearbook 2013–2017*; SHCH 2018/12 Monthly Report (web) 统计月报 表二 上海清算所固定收益产品发行量.

Detailed further information on the outstanding value of the different categories and types of bonds and notes, new issuances per period, and statistics on government and enterprise debt financing instruments in the China bond market can also be found on the websites of *AsianBondsOnline*, CCDC, and SHCH.

Appropriate links are also provided in Chapter VII and the appendixes.

E. Methods of Issuing Bonds and Notes (Primary Market)

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

In the CIBM, bonds can be issued by tender through the issuance system of the PBOC or by book-building. Currently, Treasury bonds and PFBs are issued by tender through the issuance system of the PBOC, which is operated by CCDC.

Credit products and other debt financing instruments, on the other hand, are issued in the CIBM mostly via book-building, using the central book-building platform operated by the CFAE on behalf of NAFMII. Securities companies issuing commercial paper typically use their own systems and client base to conduct book-building for their issuances.

Nonfinancial enterprises can also issue bonds by public tender, provided that they satisfy the relevant provisions of the Notice of the People's Bank of China (Financial Market Department) on the Relevant Matters Concerning the Issue of Bonds by Tender through the Issue System of the People's Bank of China (2010, No. 11), in which SHCH operates the issue system.

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

1. Issuance of Government Securities

Treasury bonds have been issued through electronic auction since 1996, where they are underwritten by government bond auction participants who will resell the Treasury bonds to the public market in different denominations. In the CIBM, government auction participants with special privileges are called market makers, not primary dealers as in many other markets; see also section M in this chapter for a description of these market participants and their functions.

After auction results are published, a distribution period of 1–2 days applies. Tender-winning participants have to pay for their successful subscription amount on the day following the auction. The period between the end of auction on auction day and the end of payment day is the distribution period.

Depending on the decision of the MOF, two types of auction may be applied in the primary market: the conventional auction method and the Dutch auction method.

a. Issuance via Conventional Auction Method

The conventional auction method is also known as multiple price (multiple yield) auction method. Where the interest rate is the bidding object, the weighted average of the tender-winning interest rates becomes the coupon rate. For the tender-winning interest rates that are less than or equal to the coupon rate, the bond would be issued at face value; for the tender-winning interest rates that are greater than the coupon rate, the bond would be issued at the respective future value discounted with the coupon rate. This is the most common auction method and requires bids to be made on a yield basis.

Where the price is the bidding object, the weighted average of tender-winning prices would be the issuance price. For the tender-winning prices that are greater than or equal to the issuance price, the bond would be issued at the determined issuance price; for the tender-winning prices that are less than the determined issuance price, the bond would be issued at the individual tender-winning prices.

b. Issuance via Dutch Auction Method

A Dutch auction, or single price (single yield) auction (also referred to as uniform auction method in the CIBM) prescribes that all accepted tenders will be offered to auction participants at the same price. In the case of interest rate as the bidding object, the highest tender-winning interest rate would be the coupon rate; in the case of price as the bidding object, the lowest tender-winning price would be the issuance price.

2. Issuance of Financial Bonds

Financial bonds are typically issued through the underwriting method. Financial bonds may be underwritten by way of an agreement or by tendering (also referred to as bidding). If the issuance is based on an agreement, the issuer has to appoint a lead underwriter and a book runner. The lead underwriter needs to conduct and perform due diligence checks on the issuer and the statements by the issuer in the issuance documentation. A book runner should be appointed for agreed underwriting for the purpose of fair book-building. For an efficient issuance operation, the lead underwriter is often appointed as book runner.

Where a financial bond is issued in the form of underwriting by bidding, the issuer releases the following information to the underwriters:

i. the specific time and way of bid calling, the subject matter, how to determine the bid winner, emergency bidding, and the tendering plan—no later than 3 working days prior to the bidding; and
ii. a bid invitation at the beginning of a bid.

The actual issuance of a financial bond is processed through the Bond Issuance System of the PBOC, which is operated by CCDC or SHCH as part of their service provision in the CIBM.

The issuer itself is prohibited from purchasing its own financial bonds, nor may it do so in any disguised form, under provisions in the banking regulations.

3. Bonds and Notes Issued by the Corporate Sector

Debt financing instruments issued in the CIBM by enterprises or corporations may be issued via book-building or through a tendering process, which is also referred to as bidding.

Public offering is the most common issuance method for corporate or enterprise bonds. Of the overall issuance volume, private placements represent about 20%–25%.

While the registration for debt financing instruments with NAFMII is generally valid for a 2-year period (see also Chapter II.F for information on the regulatory process for debt financing instruments, or the registration process), the issuer can issue debt financing instruments via a single or multiple issuances through book-building or an invitation for bidding. An issuer who adopts the book-building method has to duly issue the debt financing instruments through the centralized book-building system operated by the CFAE on behalf of NAFMII (see section b below). An issuer who invites for bidding has to duly issue via the designated bond issuance system (e.g., that of the PBOC, which is operated by either CCDC or SHCH).

a. Issuance via Tender (Public Offering)

The tender method is just one of the methods for pricing a bond issuance. There are no administrative barriers in terms of issue size or issuer credit rating for a tender issuance.

The tender (bidding) method is mainly used for the issuance of (i) Treasury bonds, (ii) central bank bills, and (iii) PFBs. If needed, smaller-sized debt financing instruments issued by nonfinancial enterprises may also use the method of issue by tender upon request from NAFMII as the registration authority in the CIBM.

For issuance by tender, taking into consideration the proposed use of the funds to be raised, issuers usually conduct an analysis of the demand and supply of funds available from the market and specific investor types, and then issue the bonds through a public offering with the determined tender or bidding method.

Issuance by tender in the CIBM means issuing bonds using the PBOC tender system, which is supported by CCDC and SHCH. The issuer must submit to the PBOC the necessary documents so as to use the PBOC tender system. The issuer and participants (underwriters) should conclude a written agreement on rights and obligations prior to the tender.

The issuer has to publicly disclose in accordance with a prior agreement with the investors at least 1 business day prior to the tender date through a website designated by NAFMII:

i. indicate tender as the issuing method,
ii. provide the tender documents, and
iii. provide a list of participants in the tender.

Tender Methods

Tender methods are discussed below.

i. Fixed Price Offer (Offer by Amount Tender)

The issuer will clearly indicate the total issuing amount, tenor, coupon rate, and price. Underwriters only bid for a committed underwriting amount through a fixed price offer.

ii. Offer by Price Tender

The issuer will clearly indicate the total issuing amount and tenor. Underwriters only bid using a price and amount offer.

iii. Offer by Rate Tender

The issuer will clearly indicate the total issuing amount, price, and tenor. Underwriters only bid for a coupon rate and for a specific underwriting amount.

iv. Spread Tender

In the bidding document for floating rate notes, the issuer will clearly indicate the benchmark rate as guidance for the floating rate and the way it is determined. Underwriters only bid with an interest spread (the difference between coupon rate and benchmark rate) offer.

Currently, there are four types of benchmark rates in a floating rate bond issuance: (i) 1-year fixed official rate of interest, (ii) CIBM 7-day repo rate average, (iii) CIBM 7-day fixing repo rate, and (iv) SHIBOR.

Offers by price or rate tenders would generally employ the Dutch auction method, which may also be used for private placements.

Allocation Methods

Once a tender or bidding process has been carried out, a number of methods for the acceptance or allocation of successful bids may be applied. Such allocation methods for successful bids are discussed below.

i. Proportional Bid Allocation

Each participant or underwriter's issue amount is allocated based on the ratio of its valid bid amount to the total valid issuing amount. If the total valid bid amount is less or equal to the total issuance amount, then all underwriters' valid bids are accepted; if the total valid bid amount is greater than the total issuance amount, then each underwriter's amount is allocated based on the ratio of its valid bid amount to the total valid issuance amount.

ii. Single Price Bid Allocation

This method is also known as the allocation for the Dutch auction, or uniform price bidding method, and is used in an offer by price tender. All successful bids (where the price was accepted by the issuer or lead underwriter) are allocated at the determined price for the whole issuance.

iii. Multiple Price Bid Allocation

This method is also known as the allocation for the conventional auction method and is used in an offer by yield or price tender. Here, all bids that came in at the determined yield or price, or were higher, are accepted by the issuer or lead underwriter and are allocated at the price at which they were offered. The issuer allocates the securities beginning with the lowest yield bid to the highest yield until the announced amount is fully subscribed. For price tenders, securities are allocated from the highest price to the lowest price until the issuer has allocated the total amount of the announced issue. The successful bids are awarded at their actual bid yield or price.

iv. Hybrid Bid Allocation

As applied in the case of an offer by rate tender, the tender system will sort in ascending order all the underwriters' valid bid rates until all bids added up reach the total issuance amount. The highest rate is called the marginal rate point. The weighted mean of all the bid rates lower than the marginal rate point is the winning bid coupon rate. For those winning bid rates lower or equal to the coupon rate, the coupon rate will be used to calculate the respective underwriters' payment amount. For those winning bid rates higher than the coupon rate, each individual winning bid rate will be used to calculate the payment amount. Currently, the hybrid bidding method is typically only used in Treasury bond issuance. This is globally known as the auction method.

b. Book-Building

Book-building is a global trend in bond issuance. Book-building means that the issuer and the lead underwriter jointly determine the range of bond yield, and the investors will place a purchase order at a preferable level in the yield range.[66] A so-called book runner is responsible for conducting the actual book-building and pricing operations, recording the investors' appetites on purchasing quantities at interested yields. The book runner generally serves as the lead underwriter. The book runner will collect all the orders and determine the actual rate (or price) and allocate the respective amounts.

At present, book-building is typically used for the issuance of debt financing instruments in smaller issue sizes and specific instrument types by nonfinancial firms, such as MTN and short-term financing bills (commercial paper).

Currently, the technical platform and support and service for the centralized book-building system for debt financing instruments in the CIBM are provided by the CFAE, under a mandate from NAFMII.

At the same time, CCDC also offers a book-building support service, including making available a dedicated, neutral book-building room within its premises to ensure that privileged information stays contained with the book runner.

c. Private Placement

Private placements must be underwritten by a qualified underwriter(s) who meets certain criteria and requirements. The issuer appoints the lead underwriter who may form an underwriting syndicate if necessary.

An issuer may place debt financing instruments in the CIBM through a private placement (market practice refers to private placement bonds or notes) via qualified underwriter(s) either to institutional investors classified as such by NAFMII (SIIs) or institutional investors who are designated by the issuer and the lead underwriter for each issuance (DIIs). For more information on DIIs and SIIs, please refer to section N in this chapter.

By investing in privately placed debt financing instruments, SIIs are deemed to have executed the associated private placement agreement and accepted the rights and obligations of investors and the specific standards for information disclosure under the private placement (see Chapter II.G for a description of the disclosure requirements and practices in the case of a private placement).

The number of investors investing in each single private placement issue shall conform to applicable national law and regulations. The issuer and investors must agree to a regular monitoring of the credit rating, determine the specific credit rating follow-up (credit rating tracking) arrangement, and commit to such

[66] Parties involved in book-building include the issuer, lead underwriter, book-keeping manager or book runner, intermediary who provides services for issuance (if any), notary (if any), and other relevant entities.

specific arrangement in the private placement agreement. If disclosure in a language other than Chinese is to be allowed, this also has to be specified in the private placement agreement (see also section G in this chapter).

Private placement bonds have to be kept in custody in registered form under the actual name(s) of the respective bondholder(s).

d. Note Issuance Programs

In the CIBM, the issuance of commercial paper, SCP, and other debt financing instruments by nonfinancial enterprises in the form of MTN is common and shall be registered with NAFMII. These issuances can be regarded as note issuance programs.

In the China bond market, MTN simply refer to debt financing instruments denominated in Chinese renminbi with a maturity of more than 1 year (typically 5–10 years) that are issued in tranches under a program and within the declared program amount. The concept of MTN in the CIBM was introduced by the PBOC in April 2008 to support the financing activities of domestic enterprises through bond issuances and to facilitate the domestic bond market's development.

In effect, MTN are note issuance programs that can be issued upon a successful registration with NAFMII and allow individual instruments to be issued under the approved amount in tranches between issuers who have financing needs and their appointed dealers or underwriters. Issuance requirements for MTN are less stringent than for corporate or enterprise bond issuance. At the same time, MTN may only be traded among, and be held by, institutional investors in the CIBM.

e. Reverse Inquiries

Reverse inquiries–where investors approach the issuer of debt financing instruments or the appointed (lead) underwriter to offer to buy such debt financing instruments–are also evident in the China bond market. In such cases, the lead underwriter shall negotiate with the investors on the debt financing instrument conditions and price.

For details on the regulatory process for the issuance of debt financing instruments via a public offering, please refer to Chapter II.F.3.

4. Bonds Issuance Systems in the Inter-Bank Bond Market

Issuance of bonds in the CIBM can occur in any number of dedicated issuance systems, including the PBOC Bond Issuance System, the MOF Government Bond Issuance System, and other bond issuance systems, such as those facilitated by CCDC and SHCH. The issuance method, the system used, and other details are publicly disclosed by the issuer before the issuance.

The PBOC Bond Issuance System is mainly used for issuances via tender of PFBs, ABS, and other financial bonds. The MOF Government Bond Issuance System is used for the issuance of Treasury bonds as well as local government bonds. Other bond issuance systems cover the issuance via book-building of enterprise bonds, ABS, and other bonds or debt financing instruments.

According to the 2015 NAFMII Rules, any corporate issuer that adopts the book-building method shall issue its debt financing instruments through the centralized book-building system (bond issuance system), which is operated by the CFAE on behalf of NAFMII. Any enterprise that invites for bidding shall duly issue its debt financing instruments via the designated bond issuance system (e.g., that of PBOC, which is operated by CCDC or SHCH). At the same time, commercial paper or other debt financing instruments issued by securities companies are typically issued by the issuer directly through their own platform.

F. Governing Law and Jurisdiction (Bond and Note 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 the 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 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.

1. General Requirements in the Inter-Bank Bond Market

In general, issuance documentation, applications and supporting documents, and disclosure information for the issuance of debt financing instruments in the CIBM must be in Chinese, particularly for public offerings. However, concessions are principally available for the issuance of Panda bonds for both issuance documentation published in the CIBM and continuous disclosure by the issuer.

Documentation to be submitted for registration and official filings with regulatory authorities need to be in Chinese. At the same time, documents to be submitted by a foreign investor to a custodian or bond settlement agent can be in English. If a bond settlement agent agreement between bank and investor is executed in English, it must be translated for filing with the PBOC.

Notwithstanding the above, issuers in the CIBM may make available to international investors an English version of the issuance announcement and key disclosure document prior to issuance if they so choose, including for a public offering. This practice has been observed for issuers that are part of an international company or group. Such announcements and initial disclosure information are for the convenience of investors only; the Chinese version remains the official document for the purpose of an offer.[67]

[67] The prospectus issued by Ford Automotive Finance (China) Limited in November 2017 is cited as one example of the provision of English documentation for selected investors; see www.1510649970156654153696.pdf.

2. Language Concessions for Panda Bond Issuance

According to the Interim Measures for Administration of the Bond Issuance by Overseas Institutions in the National Inter-Bank Bond Market, echoed in the NAFMII Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (for Trial Implementation), all registration and offering documents shall either be in Chinese or in English accompanied by a Chinese version. In addition, all information disclosed during the life of the debt financing instrument shall be in Chinese, in principle. Where an overseas nonfinancial enterprise discloses information in English on other securities markets related to a material event that requires disclosure under the 2019 NAFMII Guidelines, the issuer shall, simultaneously or as soon as reasonably practicable thereafter, disclose such information in English in the CIBM and disclose a Chinese version or a Chinese summary within 7 business days upon the disclosure of the English version. In any case, the use of English for documentation or disclosure items will need to be prescribed in the offering circular for the Panda bond.

At the same time, the legal opinion issued by the foreign law firm (at the domicile of the nonresident issuer) is to be submitted in Chinese, or translated into Chinese if the original is issued in another language, since it forms part of the required documentation for the approval and/or registration process for Panda bonds in the CIBM.

3. Panda Bonds Offered to Private Placement Investors

According to Article 29 of the 2019 NAFMII Guidelines, for debt financing instruments offered by a nonresident issuer (Panda bonds) through a private placement, the principal registration and offering documents (private placement agreement or private placement offering memorandum) shall be in Chinese or in English accompanied by a Chinese version.

Other documents may be either in Chinese or in English, as agreed between the issuer and the investors. Information disclosure during the life of such debt financing instrument may be made in Chinese or in English as agreed between the issuer and the investors.

In recent market practice, the use of English in the context of Panda bond issuance via a private placement has been limited to continuous disclosure, particularly the use of existing financial statements in English.

H. Registration of Debt Financing Instruments in the Inter-Bank Bond Market

The term registration assumes a number of different meanings in the context of the CIBM. The primary meaning of registration is shared between the need for debt financing instruments issued by nonfinancial enterprises to be registered by NAFMII (expressed as 注册) and for said debt financing instruments to be subsequently registered with the respective CSD for transfer and settlement in their book-entry system (expressed as 登记); registration with a CSD is required to make a debt financing instrument tradable in the CIBM.

In the rules of the CSDs, bond registration is also used as a term to describe the deposit of bonds or debt financing instruments with a CSD in the account of a bondholder or investor. In fact, the official description of a CSD in the PRC refers to a bond registration, depository, and settlement institution. However, in this context, the bond registration part of the CSD function is understood to be for the admission of new debt financing instruments to the book-entry system following the application by an issuer. For the registration of ownership of debt financing instruments by investors in the book-entry systems of the CSDs, please refer to section L in this chapter.

In addition, the term registration may also refer to the participation of nonresident (foreign) investors in the CIBM who need to register their participation with the PBOC under the CIBM Direct market access scheme (see also Chapter II.N), or the participation of foreign-owned CRAs who may register with NAFMII to be eligible to carry out bond-rating activities in the CIBM.

These examples for the use of the term registration may not be exhaustive, also given the fact that the unofficial English translations of laws, regulations, and rules may naturally contain registration as the term chosen to express accreditation, licensing, or other admission concepts for market participants.

This section provides further details on the primary meaning of registration of debt financing instruments in the CIBM as mentioned above.

1. Registration with National Association of Financial Market Institutional Investors

A nonfinancial enterprise or company wishing to issue debt financing instruments in the CIBM is required to register the proposed debt financing instruments with NAFMII. The registration process (注册) represents the issuance review and successful registration or rejection. NAFMII has been given a mandate by the PBOC as the market regulatory authority to carry out the registration process in its role as the SRO for the CIBM.

Central government bonds and local government bonds, financial bonds, and Panda bonds to be issued by nonresident financial institutions need not be registered with NAFMII, but instead are subject to separate approval or consent processes.

Chapter II.F contains a comprehensive description of the registration processes for debt financing instruments, including the eligibility criteria for issuers and instruments, necessary documentation and disclosure requirements, and the registration time frame.

2. Registration with China Central Depository & Clearing Co., Ltd.

Debt financing instruments eligible for deposit in CCDC (mainly including central government bonds, local government bonds, PFBs, commercial bank bonds, central bank bills, enterprise bonds, government-backed agency bonds, and ABS) must be registered with CCDC upon issuance (登记) for these debt financing instruments to be traded, cleared, settled, and safekept in the CIBM.

3. Registration with Shanghai Clearing House Co., Ltd.

Issuers of debt financing instruments that are eligible for deposit at SHCH—including commercial paper and SCP, MTN, PPN, Panda bonds, NCD, SDR-denominated bonds, PFBs, and other types of debt financing products—must register these instruments with SHCH upon issuance to ensure that they may be traded, cleared, settled, and safekept in the CIBM.

4. Registration with China Foreign Exchange Trading System

Registration with CFETS is not required to ensure that market participants may trade debt financing instruments on the CFETS platform. At the same time, CFETS requires market participants to open a trading account and submit a net connection application accompanied by supporting documents, as set out in the Bond Market Admission Guide, which is available for download in English from the CFETS website.[68]

The connection application is intended to allow each investor to trade on CFETS while using the bond account(s) opened in their name at either CCDC or SHCH (or both) to clear and settle trades concluded on CFETS. Investors may also trade through bond settlement agents, who connect to the investor's trading account at CFETS based on a separate authorization from the investor. CFETS shall complete the account opening procedures within 3 working days after receiving the application documents.

Foreign investors who access the CIBM through the CIBM Direct, QFII, or RQFII schemes will authorize a bond settlement agent to connect their bond account(s) to the trading account at CFETS and trade on their behalf.

I. Listing of Debt Financing Instruments

The listing of bonds and notes does not apply to the CIBM. To ensure the equivalent functions of a bond listing (i.e., the visibility of debt instruments), the initial and continuous disclosure obligations of the issuer, and the ready availability of bond pricing or valuations, most debt financing instruments issued in the CIBM are required to be registered with NAFMII, while their disclosure information is available from DCM-FANS and other websites designated by NAFMII, as well as the CCDC and SHCH websites, with transaction data and traded price information available on the trading platform operated by CFETS.

Please see the previous section on the registration of debt financing instruments with NAFMII. More information on disclosure and the available information on debt financing instruments for interested parties can be found in Chapter II.G and Chapter IV.E.

For a comprehensive description of the listing requirements and listing application and approval process for debt securities in the exchange bond market, please see the *ASEAN+3 Bond Market Guide for the Exchange Bond Market in the People's Republic of China*.[69]

J. Methods of Trading Bonds and Notes (Secondary Market)

Trading in the CIBM is conducted either on the electronic platform of CFETS or, to a lesser degree, through the proprietary systems of money brokerage companies (money brokers). CFETS fulfills the function of offering a common, standardized trading platform for all debt financing instruments offered in the CIBM, with full integration into the clearing and settlement process. Money brokers fulfill the desired function of intermediation between counterparties who do not know each other.

Indirect participants, such as nonfinancial enterprises (e.g., corporates), access the trading activities on CFETS through the CFAE, with quotes relayed from CFETS and execution occurring on CFETS; in this context, the CFAE acts as an order-routing mechanism. Similarly, nonresident investors accessing the CIBM via Bond Connect place their orders through the international fixed income trading platform they are connected to (e.g., Bloomberg or TradeWeb), but trades are executed on CFETS according to CFETS trading practices.

[68] See http://new.chinamoney.com.cn/english/svcfop/.
[69] See https://asianbondsonline.adb.org/abmg.php.

On the CFETS platform, trades may be concluded through bilateral negotiation or the so-called one-click method. The practice of bilateral negotiation is applied to all CIBM products, while one-click trading (点击成交) is only applied to cash (outright) bond trading and to interest rate derivatives. Counterparties can use CFETS features to request and obtain quotes, or they can quote prices for debt financing instruments. The systems and platforms offered by money brokers will capture only trades between participants and the money broker.

The legal basis for trading, for example, corporate bonds in the CIBM is contained in the Administrative Measures for the Issuance and Trading of Corporate Bonds (公司债券发行与交易管理办法), issued by the PBOC in 2015. NAFMII, as the SRO for the CIBM, issued the Self-Regulatory Rules for Bond Trading in the Inter-Bank Bond Market to define and commit market participants to market practices and conventions.

For further information on the trading methods, trading platforms, and trading conventions in the CIBM, please refer to the relevant sections in Chapter IV.

K. Bond and Note Pricing and Valuation

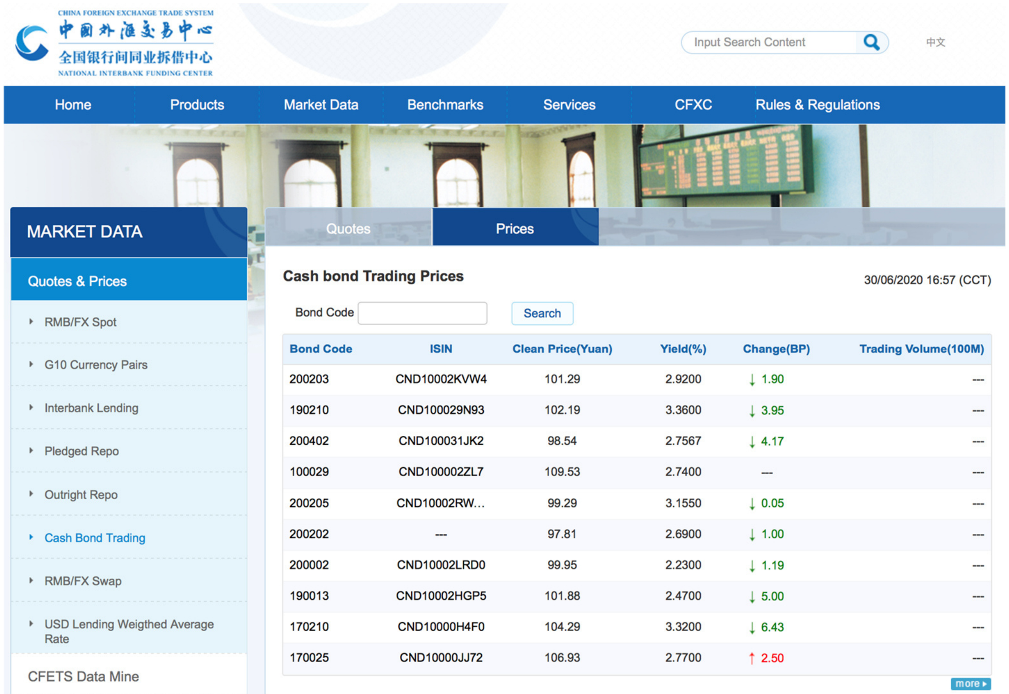
In the CIBM, the price or yield of debt financing instruments is determined through executed transactions on the CFETS platform or quotations from market participants. Prices are displayed on the access and information systems of CFETS and simultaneously or subsequently distributed to participants, information vendors, and other parties.

1. China Foreign Exchange Trading System

As the common trading platform for the CIBM, CFETS—also known as Chinamoney—provides market maker's quotes and traded prices or yields for debt financing instruments, as well as trading volume, on its website (Figure 3.1). Quotes are listed by market maker and bond code, while debt financing instrument prices and yields are listed by bond code.

For more information on CFETS and its trading platform, please see Chapter IV.B.

Figure 3.1: Inter-Bank Bond Market Bond Traded Prices at CFETS



Bond Code	ISIN	Clean Price(Yuan)	Yield(%)	Change(BP)	Trading Volume(100M)
200203	CND10002KVW4	101.29	2.9200	↓ 1.90	---
190210	CND100029N93	102.19	3.3600	↓ 3.95	---
200402	CND100031JK2	98.54	2.7567	↓ 4.17	---
100029	CND100002ZL7	109.53	2.7400	---	---
200205	CND10002RW...	99.29	3.1550	↓ 0.05	---
200202	---	97.81	2.6900	↓ 1.00	---
200002	CND10002LRD0	99.95	2.2300	↓ 1.19	---
190013	CND10002HGP5	101.88	2.4700	↓ 5.00	---
170210	CND10000H4F0	104.29	3.3200	↓ 6.43	---
170025	CND10000JJ72	106.93	2.7700	↑ 2.50	---

Source: China Foreign Exchange Trade System (CFETS) and National Interbank Funding Center. Cash Bond Trading. http://www.chinamoney.com.cn/english/mdtqapcbt/.

2. China Central Depository & Clearing Co., Ltd.

As part of its function to effectively support the CIBM, CCDC also features the ChinaBond Pricing Center. CCDC started creating the market's first yield curve in 1999 and established a series of bond pricing valuations in 2006. In 2010, ChinaBond Pricing Center, as a unit of CCDC, started commercial operation. By 2013, ChinaBond had fully covered bond valuations for all CNY-denominated debt financing instruments traded in the CIBM and has since expanded into other valuation and index products; see Chapter IV.F for further details.

Today, ChinaBond provides daily valuations for more than 14,000 bonds and notes denominated in Chinese renminbi and traded in the CIBM, regardless of whether an individual instrument was traded that day. Bond valuations are carried out daily at 5:30 p.m. based on a number of defined bond valuation indicators.

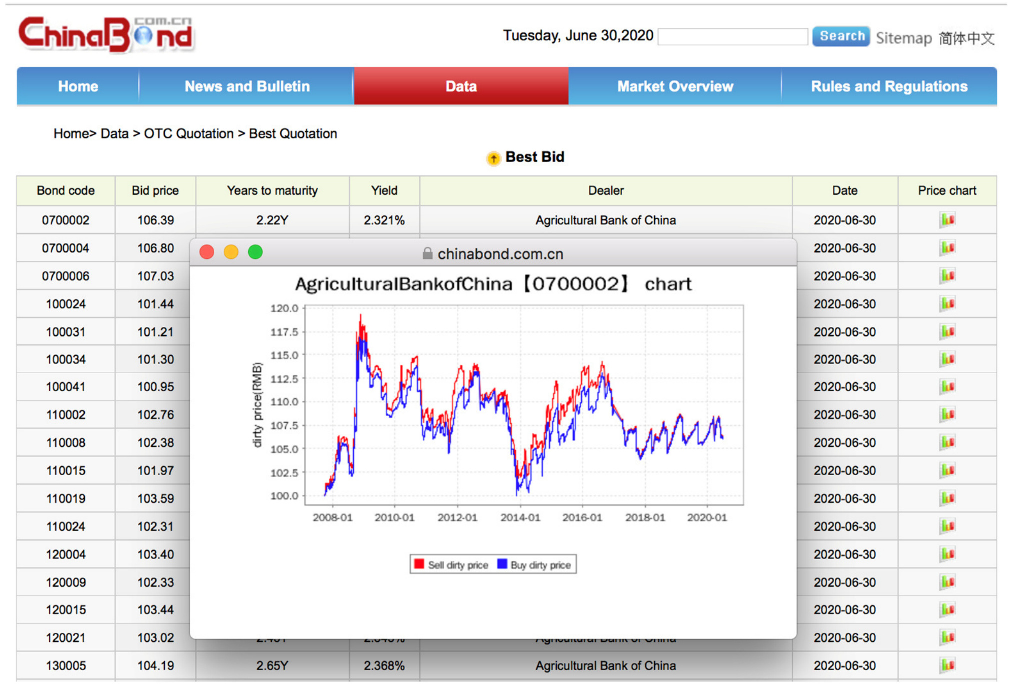
In 2007, fund companies began to use ChinaBond yield curves and valuations to appraise debt financing instruments traded in the CIBM, while listed banks started to use ChinaBond valuations as a measurement of bond fair value from 2008; subsequently, the then CBRC recommended ChinaBond valuations as a credible reference for the measuring of bond fair value in its Operation Guide for Commercial Banks on Bond Fair Value Valuation. In 2009, ChinaBond valuations became the reference indicator for the monitoring of abnormal trading activities in bonds traded in the CIBM.

In 2013, the application of ChinaBond valuations was extended to use in collateral management by trading counterparties. Since 2015, the Association of Asset Management Companies of China has mandated that all debt securities traded on an exchange require a third-party valuation; this extended the application of the ChinaBond valuations into the exchange market.

In addition, the ChinaBond Pricing Center also conducts an analysis of market prices and financial statements of issuers, by observing the credit spreads given by investors to each bond, and calculates a so-called market implied credit rating.

ChinaBond also analyzes the quotations (bids) provided in the CIBM, showing the best quotations for individual debt financing instruments on its website as a service for the easy orientation of market participants (Figure 3.2).

Figure 3.2: Over-the-Counter Bond Quotations at ChinaBond



Source: China Central Depository & Clearing Co., Ltd. OTC Quotations. http://www.chinabond.com.cn/jsp/include/CB_EN/marketdata/zybj.jsp?id=317931.

3. Shanghai Clearing House Co., Ltd.

SHCH pays close attention to the fair valuation of debt financing instruments and has established a market-recognized valuation system for bonds and other debt financing instruments. Today, SHCH provides daily valuations for more than 30,000 debt financing instruments of 19 different types in the CIBM, including credit bonds and government bonds.[70] The indicators for each instrument include dirty price, clean price, yield to maturity, accrued interest, duration, and convexity, among others. The tenor of these debt financing instruments does not have to be more than 1 year and the large number of instruments valued is the result of the inclusion of short-term instruments such as commercial paper varieties and NCD.

Debt financing instruments valuations are released through the official SHCH website daily at about 6 p.m. (Figure 3.3). At the time of writing, the SHCH website with valuation information was only available in Chinese.

[70] SHCH provides daily pricing for debt financing instruments such as local government bonds, enterprise bonds, financial bonds, ABN, SCP and commercial paper, PPN, MTN, and NCD.

Figure 3.3: Shanghai Clearing House Bond Valuation Web Page

Source: Shanghai Clearing House. Bond Valuation. http://www.shclearing.com/cpgz/zqjqysp/zqgz/.

L. Transfers of Interests in Bonds and Notes

The transfer of interests in, or ownership of, debt financing instruments in the CIBM depends on the type of instrument and, by extension, the depository in which such instruments are registered, deposited, and settled. Debt financing instruments will need to be registered with a CSD at issuance to be traded or transferred in the CIBM.

CCDC and SHCH support or provide services for the issuance, registration, securities depository or safekeeping, and settlement of debt financing instruments traded in the CIBM. They also facilitate the interest payment and redemption, as well as other ancillary services.

Institutional investors in the CIBM, as well as securities firms and commercial banks acting for their own purposes or their clients, open one or more bond account(s) (e.g., pledge or repo accounts) with CCDC or SHCH, either directly or through a bond settlement agent (see section M in this chapter).

For an investor or other account holder to claim ownership of debt financing instruments in the CIBM, these debt financing instruments will need to be recorded in their bond account(s). On the other hand, Bond Connect allows nonresident investors to enter the CIBM under a nominee account arrangement through the omnibus account maintained by the CMU at CCDC or SHCH.

This section details the transfer of interests in (i.e., the ownership of) debt financing instruments from a number of perspectives.

1. Government Securities

CCDC is the depository authorized by MOF for managing the registration of Treasury bonds and act as the central register for these debt instruments. In addition, CCDC also registers central bank bills issued by the PBOC as part of its open market operation.

CCDC maintains a book-entry system to record investors' holdings of debt financing instruments registered and deposited with it, and manages investors' rights and interests. CCDC records transfers of debt financing instruments among bond accounts in its book-entry system on settlement day, upon having received trading data from CFETS and matching those to settlement instructions from its account holders. At settlement, debt financing instruments are transferred from the seller's bond account to the buyer's bond account, with the corresponding cash being settled through the National Interbank Funding Center (NIFC).

2. Other Debt Financing Instruments

Depending on the type of debt financing instrument, the transfer of ownership will be recorded in bond accounts of investors in the book-entry systems of either CCDC or SHCH. In addition, CCDC and SHCH will record pledges, or release such pledges, upon instructions from bond account holders. Upon completed settlement, the transfer of debt financing instruments between bond account holders becomes irrevocable.

3. Cross-Market Transfer

The concept of cross-market transfer is unique to the China bond market, owing to its multiple bond market segments. Debt financing instruments (bonds) registered with CCDC in the CIBM—such as Treasury bonds, local government bonds, SOE bonds, and local enterprise bonds—may also be listed, deposited, traded, and settled in the exchange bond market, where the term debt securities is used for these instruments.

Bond account holders in the CIBM are able to have part or all of their holdings in eligible debt instruments transferred between bond accounts they maintain in the CIBM and accounts with CSDC in the exchange bond market. Positions in central and local government debt instruments, as well as many enterprise bonds, are fungible between the CIBM and exchange market, with the exception of PFBs (Table 3.5).

Upon instruction, CCDC will transfer debt financing instruments from the bond accounts of their participants in their book-entry system to the bond account maintained by CSDC in their book-entry system. Functioning like a nostro account, CSDC will then record the transfer in its own book-entry system by recording the transferred holding in the investor's bond account in the CSDC's book-entry system, following which the holding is tradable and can be settled in the exchange bond market.

Table 3.5: Fungibility of Debt Financing Instrument among Major Market Segments

Inter-Bank Bond Market		Exchange Bond Market
Nonfungible Instruments	**Fungible Instruments**	**Nonfungible Instruments**
Policy bank financial bonds, medium-term notes, commercial paper, super-short-term commercial paper, private placement notes, SME collective notes, negotiable certificates of deposit	Treasury bonds, local government bonds, government-backed (agency) bonds, state-owned enterprise bonds, local enterprise bonds, local enterprise collective bonds, project revenue bonds	Corporate bonds, convertible bonds, policy bank financial bonds

SME = small and medium-sized enterprises.
Sources: ChinaBond. 2019. *Monthly Bulletin of Statistics: 3-04 Cross Market Bond Balance* (登录中国债券信息网:统计月报:3-04 跨市场债券托管量); Standard Chartered Bank; and ASEAN+3 Bond Market Forum Sub-Forum 1 team.

The actual process of a cross-market transfer from the CIBM to the exchange bond market requires an application to CCDC by the account holder wishing to transfer its debt financing instruments and includes the following steps:

Step 1: The applicant completes an application form for cross-market transfer.
Step 2: The applicant has to fax the application form to CCDC and, at the same time, send a cross-market transfer instruction to CCDC in the depository system.
Step 3: As a result of the cross-market transfer instructions, a book-keeping notice is generated in the CCDC system.
Step 4: CSDC will effect the book-entry transfer in accordance with the cross-market transfer book-keeping notice.

Since the transfer of debt instrument holdings occurs between accounts of the same investor, there is no change in legal ownership of the instruments as a result of the transfer.

4. Prohibited Transfers

In principle, the transfer of ownership of debt financing instruments in the CIBM requires an underlying trade concluded on the CFETS platform or recorded in CFETS after agreement between counterparties, and a settlement instruction to the CSD from a bond settlement agent, a direct participant, or an indirect participant. In addition, the CSDs carry out transfers of debt financing instruments to service clearing or settlement obligations for direct trading participants in the CIBM, as well as for bond settlement agents.

At the same time, a CSD may not carry out a transfer as instructed by the bond settlement agent or direct participant, if such a transfer order may cause a violation of laws, regulations, or rules in the CIBM.

However, a transfer may also occur as a result of other underlying causes such as a court order for the freezing (or unfreezing) of assets, an inheritance, or other directions by the relevant authorities. In such cases, CCDC or SHCH will carry out the transfer in line with the legal documents presented.

5. Custodian Point of View

In the CIBM, custodians are typically referred to as bond settlement agents, provided they have obtained a so-called Type A license, which allows them to both trade and settle debt financing instruments for themselves and on behalf of other market participants without direct access to the CIBM, or Type C participants, which include foreign investors.

Bond settlement agents maintain separate bond accounts with CCDC and SHCH for their proprietary business (also called bond primary account) and client business (bond secondary accounts), one for each investor. Prior to commencing the bond settlement agency service, bond settlement agents execute a participant agreement with the CSD and, in turn, will conclude a client agreement on the provision of such bond settlement agency services with Type C investors.

Bond settlement agents will only place orders in the CIBM or instruct settlements to the respective CSD when so authorized by the investor. At the same time, the CSD will accept settlement instructions as given by the bond account holder and effect transfers of holdings in their book-entry systems if trading records are evident and settlement instructions match.

M. Market Participants

In the CIBM, market participants are made up of the many members of NAFMII, which include commercial banks and non-bank financial institutions, securities firms and investment banks, asset managers, and insurance companies as investors and/or service providers. Please also see Chapter II.H for relevant details on membership in NAFMII.

Issuers of debt financing instruments and relevant intermediaries are required to be members of NAFMII. Investors that would like to invest in PPN shall be NAFMII members, while membership is not mandatory if investors invest in other bond types in the CIBM.

Foreign institutional investors are able to participate in the CIBM—under the QFII, RQFII, or CIBM Direct market access schemes (see Chapter II.N for details)—by appointing one or more bond settlement agents, who also act as trading participants on behalf of the foreign investors, or by accessing Bond Connect through nominee accounts of the CMU at CCDC or SHCH.

Issuers consist of the central and local governments and their agencies, as well as listed and unlisted companies and enterprises. Please see also section B in this chapter for a complete description of the typical debt financing instruments in the CIBM and their issuers.

In addition, a number of market institutions and infrastructure providers also offer service provisions in support of debt financing instrument issuance, trading, clearing, and settlement, as well as credit rating and valuation services.

1. Issuers in the Inter-Bank Bond Market

The CIBM features a wide range of issuers, from the central 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 SOEs. For the most part, their issuances (enterprise bonds) are treated the same as corporate bonds, including when considering the credit rating. In addition, the PBOC issues central bank bills in the CIBM as part of its open market operation.

From the private sector, many large or larger companies issue their bonds in the CIBM, in particular banks and non-bank financial institutions. A particular section of issuers is represented by nonlisted companies, including SMEs that also issue a particular type of debt financing instruments. Please also see section B in this chapter for a description of the debt instruments issued in the CIBM and their issuers.

At the time of registration of debt financing instruments by nonfinancial enterprises to be issued in the CIBM, NAFMII, as the registration authority, applies a categorization to issuers according to specific criteria in case of public offerings. The categorization of an issuer determines the actual registration process and disclosure obligations; see also Chapter II.F.3 for a comprehensive description of the issuance regulatory process for public offerings and the distinctions made for each issuer category.

In the RPR (2020), NAFMII distinguished between four issuer categories, grouped into mature and basic-level enterprises, using size, market recognition, and issuance history and experience as key criteria. Please also see the explanation of the grouping and individual categories in Chapter II.F.3 for guidance.

For example, pursuant to Article 7 of the RPR (2020), an enterprise that meets all of the following criteria is classified as a mature enterprise, or Category I or II issuer:

i. a high level of market recognition or prominent industry status, sound corporate governance, and production and operations that comply with national macroeconomic and industrial policies;
ii. a stable financial situation with the size, capital structure, and profitability meeting the specific requirements of its industry classification;[71]
iii. mature public information disclosure for no less than three separate issuances of debt financing instruments (or other debt instruments) in the last 36 months, and debt financing instrument issuance to the public of not less than CNY10 billion in that period;
iv. no default on or delayed payment of principal and interest within the last 36 months, for both the issuer and parent company, if applicable;
v. no violation of laws and regulations, breaches of NAFMII self-regulations, investigations by competent authorities, or administrative or criminal penalties; and
vi. other conditions set by NAFMII in accordance with investor protection requirements.

The classification as a mature enterprise also includes select eligibility criteria by industry (Table 3.6).

[71] The appendix of the RPR (2020) contains a table detailing the minimum asset size, maximum assets-to-liabilities ratio, and minimum return-on-assets percentage prescribed for a mature enterprise (issuer), according to four industry groupings.

Table 3.6: Business and Financial Indicators for Category I Issuers

Industry	Total Assets (CNY billion)	Debt Ratio (%)	Return on Assets Ratio (%)
Telecommunications, utilities, transportation, energy	>100	<85	>3
Information technology, large-scale manufacturing, textiles and apparel and consumer products, metals, automobiles and auto parts, medicine, raw materials	>100	<80	>3
Hotels, restaurants and leisure, tourism, media and culture, agriculture, forestry, animal husbandry, fishing, wholesale and retail trade	>80	<75	>3
Civil construction, infrastructure construction, comprehensive and other categories	>120	<85	>3

CNY = Chinese renminbi.
Source: National Association of Financial Institutional Investors.

A mature enterprise not satisfying the additional quantitative criteria (including asset size and recent issuance volume) for Category I shall be classified as a Category II issuer. Issuers not meeting the criteria prescribed for mature enterprises are classified as basic-level enterprises (Categories III and IV), which are further distinguished by past issuance volume and experience. Furthermore, an issuer will lose its category status if it no longer fulfills the respective conditions for such status.

As of April 2020, NAFMII alone reported more than 4,400 nonfinancial enterprise issuers in the CIBM, with an outstanding balance of debt financing instruments of about CNY12.4 trillion.

2. Investors in the Inter-Bank Bond Market

Investors in the CIBM are nearly exclusively institutional investors such as commercial banks and non-bank financial institutions, insurance companies, securities companies, funds management companies, enterprises, and public institutions. At the end of December 2019, CCDC maintained 24,397 bond accounts for institutional investors in the CIBM. Table 3.7 provides a breakdown of investor types and their bond accounts and holdings with CCDC.

In addition, CCDC alone maintains nearly 23 million additional "sub-custody" bond accounts for investors from the commercial banks' counter market, which are kept as subaccounts under the commercial banks that are on-selling debt financing instruments to general investors, including retail investors.[72] In CCDC terminology, the accounts in Table 3.7 are referred to as "first-tiered custody" bond accounts.

[72] At the end of December 2019, the exact number of "sub-custody" accounts reported by CCDC was 22,927,508.

Table 3.7: Overview of Inter-Bank Bond Market Bond Accounts at CCDC

Type of Account Holders	Number of Bond Accounts	Breakdown by Account Category		
		A	B	C
1. Policy financial banks	3	1	2	–
2. Commercial banks	1,538	60	1,458	20
2.1 National commercial banks and their branches	80	17	55	8
2.2 City commercial banks	145	29	116	–
2.3 Rural commercial banks	1,139	8	1,131	–
2.4 Rural cooperative banks	15	–	14	1
2.5 Village banks	80	–	70	10
2.6 Foreign banks	67	6	60	1
2.7 Other banks	12	–	12	–
3. Credit unions	530	–	463	67
4. Insurance agencies	183	–	166	17
5. Securities companies	135	54	81	–
6. Fund companies and foundations (pension and provident funds)	59	–	56	3
7. Other financial institutions	349	5	335	9
8. Nonfinancial institutions	265	–	1	264
9. Unincorporated products	20,196	–	20,115	81
Of which, commercial banking wealth management products	1,611	–	1,611	–
10. Foreign institutions	1,120	–	2	1,118
11. Others in CIBM	19	3	15	1
Total CIBM accounts at CCDC	**24,397**	**123**	**22,694**	**1,580**

CCDC = China Central Depository & Clearing Co., Ltd; CIBM = China Inter-Bank Bond Market.
Notes: Data as of December 2019. The account categories refer to the ability to settle. “A” can settle for one’s own and other institutions. “B” can settle only for one’s own institution. “C” needs to use a settlement agency to participate in the CIBM.
Sources: Adapted by ASEAN+3 Bond Market Forum Sub-Forum 1 team from ChinaBond. 2019. *December Monthly Bulletin of Statistics. 3-02 Bond Balance* (Investor Type: 债券托管量(按投资者)) and 3-08 (Total Number of Investors: 投资者数量).
https://www.chinabond.com.cn/cb/eng/yjfx/zzfx/yb/20200103/153505906.shtml and https://www.chinabond.com.cn/cb/cn/yjfx/zzfx/yb/20200103/153505771.shtml.

The market distinguishes between direct investors, who are able to participate at auction and in tenders directly but without being able to distribute the acquired debt financing instrument to the secondary market, and indirect investors, who may only purchase debt financing instruments in the secondary market. Investors may maintain bond accounts with both CCDC and SHCH.

Table 3.8: Overview of Inter-Bank Bond Market Bond Accounts at SHCH

Type of Account Holders	Number of Bond Accounts	Breakdown by Account Category		
		A	B	C
1. Policy financial banks (政策性银行)	3	–	3	–
2. Deposit-taking financial institutions (存款类金融机构)	2,237	55	2,172	10
3. Non-bank financial institutions (非银行类金融机构)	266	–	266	–
4. Securities companies (证券类金融机构)	159	–	159	–
5. Insurance agencies (保险类金融机构)	140	–	132	8
6. Nonfinancial institutions (非金融机构法人)	288	–	278	10
7. Unincorporated products (非法人产品)	19,326	–	19,325	1
8. Foreign institutions (境外机构)	1,024	–	4	1,020
9. Others (其他)	68	–	64	4
Total bond accounts	**23,511**	**55**	**22,400**	**1,056**

Notes: Data as of the end of November 2019. The account categories refer to the ability to settle. "A" can settle for one's own and other institutions. "B" can settle only for one's own institution. "C" needs to use a settlement agency to participate in the China Inter-Bank Bond Market.
Source: Shanghai Clearing House.

At the end of November 2019, SHCH reported 23,511 bond accounts for institutional investors in its book-entry system; a breakdown of the total number of bond accounts is provided in Table 3.8, with an example of the distribution by account type provided.

a. Commercial Banks

Commercial banks—including state-owned commercial banks, joint-stock commercial banks, foreign banks, city commercial banks, rural commercial banks, and other commercial banks—are major institutional investors in the CIBM.

At present, state-owned banks, city commercial banks, and joint-stock commercial banks are the most active trading participants in the CIBM, and act as direct investors at auction and in tenders, as primary dealers for the PBOC's open market operation, as well as market makers for the CIBM. Their bid–ask quotes play an important role for guiding the market, including for the price-finding mechanism. Commercial and other banks are licensed by CBIRC and their activities in the CIBM are regulated by the PBOC.

b. Non-Bank Financial Institutions

Non-bank financial institutions are important institutional investors with investing power in the CIBM, including financial leasing companies belonging to large enterprise groups, investment trust companies, and other financial leasing companies.

c. Securities Companies

Securities companies are important institutional investors in the CIBM. Subject to their financial strength, their principal bond investment size may not be big. But securities companies play multiple roles as proprietary investors, financial intermediary institutions, and market makers. Securities companies are regulated by CSRC.

d. Insurance Companies

Due to the significant amount of recurring premium income, insurance companies are important institutional investors in debt instruments, including in the CIBM. Insurance companies mostly act as direct investors. Some of the larger insurance companies, such as China Life Insurance and China Pacific Insurance Group, have also been appointed by the PBOC to act as CIBM market makers.

e. Investment Funds

Participation by investment funds in the CIBM has grown strongly in recent years. Among them, bond funds and money market funds invest the most in the bond market. Money market funds in particular have become significant institutional investors in short-term (discount) Treasury bonds and central bank bills.

f. Nonfinancial Institutions

Nonfinancial institutions refer to all types of enterprises and public institutions. These entities may have idle funds that are available for investment in debt instruments for value preservation, income generation, and appreciation. These institutions enter the CIBM by placing their orders via the CFAE, which routes these orders to the trading platform of CFETS for execution. Nonfinancial institutions are presently not able to use the services of a bond settlement agent. Nonfinancial institutions mostly invest in central bank bills, short-term (discount) Treasury bonds, and financial bonds.

g. Pension and Provident Funds

The National Social Security Fund (NSSF) and the occupational pension scheme for government employees, established in 2015, have been active participants in the CIBM in recent years. The NSSF is classified as a sovereign wealth fund and serves as the national social security reserve fund to supplement and adjust social security spending, such as social insurance, in view of an aging population. The funding sources of the NSSF include fiscal allocation from the central government, the transfer of state-owned capital and fund investment proceeds, as well as capital raised by other methods approved by the State Council.[73]

[73] Text adapted by ABMF SF1 from the National Social Security Fund website: http://www.ssf.gov.cn/Eng_Introduction/201206/t20120620_5603.html.

Due to their prudential nature, the NSSF and other pension funds are required to focus on capital preservation and income generation, which makes them prime investors in government and government-linked debt financing instruments. The NSSF has been able to invest directly in the CIBM since April 2015, and may invest up to 20% in high-quality corporate debt financing instruments.

h. Qualified Overseas Institutional Investors

Overseas central banks; foreign currency authorities; sovereign wealth funds; RMB clearing banks in Hong Kong, China and Macau, China; and any foreign institutional investor who is qualified as a QOII may access the CIBM to trade cash bonds and carry out other transactions approved by the PBOC without a cap on investment volumes and fund transfers. Other transactions may include foreign exchange hedging products, bond lending, bond forwards, interest rate swaps, and forward rate agreements.

Pursuant to PBOC Notice No. 3 (2016), foreign institutional investors who are able to participate in the CIBM are summarized as QOII. This grouping includes QFII and RQFII accessing the CIBM.

Foreign central banks and currency authorities, and RMB clearing banks in Hong Kong, China and Macau, China, have been able to invest in the CIBM since August 2010 when the PBOC introduced market access to foreign entities under the RQFII scheme to allow for inflows of offshore Chinese renminbi back into the domestic market.

QFII include asset management companies, insurance companies, securities firms, commercial banks, pension funds, charitable foundations, endowment funds, and sovereign wealth funds. For a detailed explanation of the QOII concept and information on the QFII and RQFII schemes and their underlying regulations, please refer to Chapter II.N.

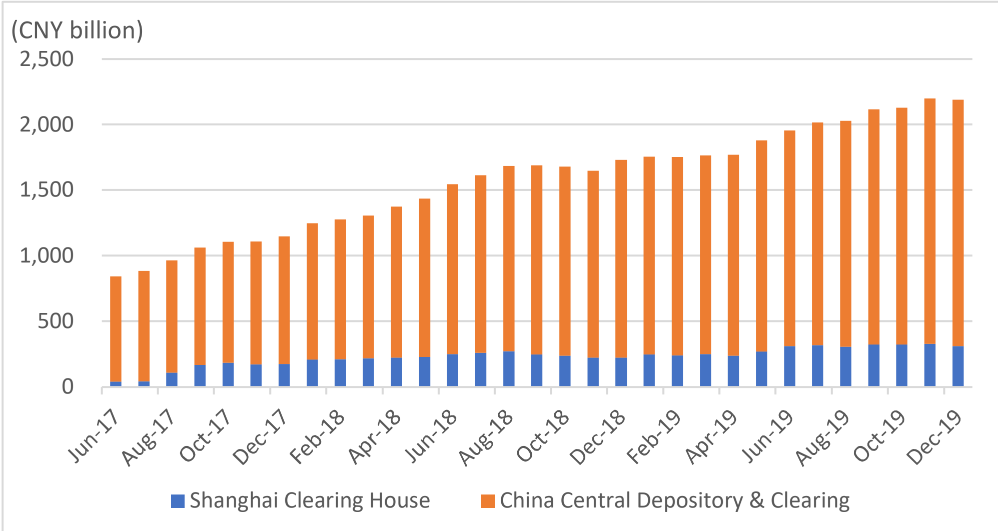
Investment in the CIBM by QOII has increased steadily over the past several years (Figure 3.4), in line with the continuous measures by policy bodies and regulatory authorities to further liberalize access to the China bond market and capital market at large.

At the end of November 2019, CCDC maintained 1,095 bond accounts for overseas institutions, with the balance of bonds under custody reaching approximately CNY1.87 trillion, accounting for 85% of the total amount of bonds held by foreign institutions in the PRC. At the end of November 2019, SHCH maintained 1,024 bond accounts for overseas institutions, with a balance of approximately CNY0.33 trillion, representing 15% of the total amount of bonds held by foreign investors.

However, at the end of November 2019, foreign ownership of debt financing instruments and debt securities still only accounted for approximately 3.6% of the CIBM total, representing CNY2.2 trillion, or the equivalent of approximately USD313 billion at the time.

Please also see Chapter II.N for applicable regulations and limitations for nonresidents.

Figure 3.4: Foreign Holdings of CNY-Denominated Bonds



CNY = Chinese renminbi.
Note: Data refer to total foreign holdings including, but not limited to, holdings through Bond Connect, which was launched in July 2017.
Source: ChinaBond. Market Data. http://www.chinabondconnect.com/en/market-data.htm.

3. Parties Involved in Debt Securities Issuance

The intermediary roles in the CIBM include primary dealers, dealers and underwriters, commercial banks, accounting firms, law firms, CRAs, and other entities.

a. Primary Dealers

In contrast to other established markets, the term primary dealer in the CIBM is given to financial institutions that are able to deal directly with the PBOC (e.g., as constituents of the open market operation of the PBOC). This stems from the origins of the CIBM, which started operation in 1997 as an interbank market for the purpose of the PBOC conducting its open market operation with newly created monetary tools and the fulfillment of the refinancing needs of its constituents.

The traditional role of primary dealers (as principal actors in the primary market), particularly for sovereign bond issuances, is partly subsumed in the CIBM by the market makers (see section e below). Primary dealers may choose to also participate in government bond issuances through auction or tender in addition to being members of the interbank market. Primary dealers may also be market makers, and vice versa.

Primary dealers are selected by the PBOC.

b. Securities Companies

Securities firms (in regulations described as securities companies) act as dealers and financial intermediaries, such as a bond settlement agent, for domestic and foreign investors wanting to access the CIBM. Dealers sell debt financing instruments issued in the CIBM as a selling agent or in an underwriter capacity. Securities companies are licensed by CSRC and the issuance of debt instruments by securities companies is also regulated by CSRC but subject to registration with NAFMII.

c. Commercial Banks

Commercial banks may act as an underwriter or selling agent for debt financing instruments to be issued in the CIBM, as well as a bond settlement agent or a custodian. Commercial banks are licensed by CBIRC and need not be separately licensed or approved by the PBOC for participation in the CIBM or to act as underwriter for financial bonds.

However, if a commercial bank would like to act as market maker (see section e below), it will need to be appointed to that role by the PBOC. If a commercial bank would like to underwrite debt financing instruments issued by nonfinancial enterprises (corporates), it will need to obtain an Underwriting License for Debt Financing Instruments of Non-Financial Enterprises from NAFMII.

d. Underwriters

Underwriters are financial institutions—securities firms or commercial banks—that commit to selling debt financing instruments for an issuer to investors in the CIBM. Underwriting is conducted on a firm commitment or an agency basis.

NAFMII introduced the debt financing instrument underwriting business members (债务融资工具承销业务相关会员) category in 2011. This member category is divided into the following three categories:

i. members who have been engaged in debt financing instrument underwriting as lead underwriting members (主承销类会员),
ii. members who have been engaged in debt financing instrument underwriting as underwriting members (承销类会员), and
iii. members who are interested in and intend to be debt financing instrument underwriting members (意向承销类会员) in the CIBM and are voluntarily participating in the market evaluation by NAFMII.

Underwriters active in the CIBM need to obtain a license from NAFMII for the underwriting of debt financing instruments issued by nonfinancial enterprises (corporates); separate licenses exist for lead underwriters and underwriters. The lead underwriting licenses are divided into two categories, A and B.

In case an issuer appoints more than one underwriter, regulations require the designation of a lead underwriter. In the case of a public offering, the (lead) underwriter is required to submit issuance and disclosure documentation to NAFMII for the registration of the debt financing instruments. The (lead) underwriter also has an obligation to assist the issuer to conduct a debt financial instrument holders meeting if so required (see section S in this chapter for more details). If the issuer is a nonresident entity issuing Panda bonds, the (lead) underwriter acts as post-registration manager, aiding in debt financial instrument holder meetings as well as supporting the provision of continuous disclosure information as may be prescribed in the issuance documentation (please see Chapter II.G for more information).

An underwriter needs to meet the following criteria to conduct underwriting activities:

i. registered capital of no less than CNY200 million,
ii. relatively strong capabilities in distributing bonds,
iii. qualified professionals engaged in bond market business and bond distribution channels,
iv. committed no serious illicit act within the most recent 2 years, and
v. other conditions as required by the PBOC.

A type A lead underwriter can carry out the underwriting of debt financing instruments issued by nonfinancial enterprises throughout the country; a type B lead underwriter can carry out lead underwriting business within a limited scope, must be a bank, and needs to work with a type A lead underwriter to jointly develop the lead underwriting business for 1 year.

In addition, NAFMII has established a market-based evaluation system to see if the applicants (such as banks) are eligible to be underwriters or lead underwriters of debt financing instruments in accordance with their scores.

Underwriters or debt financing instrument underwriting business members are evaluated and accredited by NAFMII through the member market evaluation index system, according to the following three types of indicators: (i) institutional qualification and business evaluation, (ii) market evaluation, and (iii) evaluation by the NAFMII Secretariat.

At the end of November 2019, there were 41 type A lead underwriters, consisting of major domestic banks and securities dealers, and 26 type B lead underwriters, most of them medium-sized city commercial banks and rural commercial banks.

As for underwriters, there were 65 at the end of November 2019. In addition to smaller urban or rural commercial banks, there are also types of institutions such as Insurance Asset Management Companies (which belong to the Insurance Asset Management Association of China), trusts, and financial companies.[74]

As of November 2019, six foreign banks had obtained the qualification for underwriting business in the CIBM. Among them, Deutsche Bank and BNP Paribas obtained a type A qualification, while HSBC and Standard Chartered Bank obtained a type B qualification, and J.P. Morgan and Citibank obtained underwriter licenses.

The PBOC restricted the business scope of foreign banks that have obtained a type B qualification to the underwriting of debt financing instruments issued by foreign nonfinancial enterprises.

At the time of the compilation of this bond market guide, NAFMII had issued the following self-regulatory rules and guidelines specific to underwriters or underwriting business:

[74] The Insurance Asset Management Association of China, established in September 2014, is the national SRO for the Chinese insurance asset management industry under the supervision of CBIRC. At the end of 2018, the association had 554 members from all sectors of the financial market, including 535 institutions and 11 renowned Chinese and foreign economists. For more details, see http://www.afca-asia.org/Portal.do?method=columnView&channelID=43.

- Guidelines on Post-Registration (Follow-Up) Management by Lead Underwriter of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具主承销商后续管理工作指引) (6 April 2010) (an English translation is available from NAFMII)[75]
- Rules on Market Evaluation of NAFMII Members Participating in the Underwriting of Debt Financing Instruments of Non-Financial Enterprises (中国银行间市场交易商协会非金融企业债务融资工具承销业务相关会员市场评价规则) (8 April 2011)
- Code of Conduct for Underwriting Staff of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具承销人员行为守则) (7 April 2012)
- Model Underwriting Agreement for Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具承销协议文本) (2 September 2013)
- Model Underwriter Syndicate Agreement for Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具承销团协议文本) (2 September 2013)
- Rules on Market Evaluation of NAFMII Members Participating in the Underwriting of Debt Financing Instruments of Non-Financial Enterprises (中国银行间市场交易商协会非金融企业债务融资工具承销业务相关会员市场评价规则) (8 April 2011)
- NAFMII Market Evaluation Criteria for Intended Underwriting Members (Banks Category) (中国银行间市场交易商协会意向承销类会员（银行类）市场评价标准) (8 July 2016)
- NAFMII Material Description for Intended Underwriting Members (Banks Category) to Participate in the Underwriting Business Market Evaluation (中国银行间市场交易商协会意向承销类会员（银行类）参与承销业务市场评价相关材料说明) (8 July 2016)
- NAFMII Materials List for Intended Underwriting Members (Banks Category) to Participate in the Underwriting Business Market Evaluation (中国银行间市场交易商协会意向承销类会员（银行类）参与承销业务市场评价相关材料清单) (8 July 2016)
- NAFMII Market Evaluation Criteria for Intended Underwriting Members (Trust Company Category) (中国银行间市场交易商协会意向承销类会员（信托公司类）市场评价标准) (7 September 2017)
- NAFMII Material Requirements for Intended Underwriting Members (Trust Company Category) to Participate in the Underwriting Business Market Evaluation (中国银行间市场交易商协会意向承销类会员（信托公司类）参与承销业务市场评价相关材料要求说明) (7 September 2017)
- NAFMII Materials List for Intended Underwriting Members (Trust Company Category) to Participate in Underwriting Business Market Evaluation (中国银行间市场交易商协会意向承销类会员（信托公司类）参与承销业务市场评价相关材料清单) (7 September 2017)

The license related to financial bonds is regulated by the PBOC. The underwriting of financial bonds does not require a specific license from the PBOC.

With the introduction of the revised Rules and Procedures for Meeting of Debt Financing Instrument Holders of Non-Financial Enterprises in the Inter-Bank Bond Market by NAFMII (published in December 2019 and effective in July 2020), underwriters are also formally recognized as a convener of debt

[75] See http://www.nafmii.org.cn//english/lawsandregulations/selfregulatory_e/201801/t20180110_67081.html.

financing instrument holder meetings, if so appointed by the issuer (see section R in this chapter for more details).

e. Market Makers

The market maker (债券市场做市商) system is essential to efficiently run and develop the CIBM. According to Article 2 of the Provisions for Administering National Inter-Bank Bond Market Makers, issued by the PBOC on 9 January 2007, market maker refers to financial institutions that conduct market making activities in the CIBM upon the approval of the PBOC and enjoy the provisioned rights while assuming the corresponding obligations.[76] As of the middle of December 2019, the CIBM featured 30 market makers and 55 probationary market makers (the Chinese term "债券市场尝试做市机构 defines them as organizations with a probationary status to be a market maker in the future). The latter group comprised 48 comprehensive market makers and 7 specialized market makers.[77] Market makers are licensed and appointed by the PBOC and their performance is evaluated by NAFMII.

Pursuant to the Provisions on the Administration of Market Makers in the National Inter-Bank Bond Market (published 9 January 2007), those financial institutions wishing to apply for the role of a market maker need to be established in accordance with the laws of the PRC and shall meet the following requirements:[78]

i. registered capital or net capital of not less than CNY1.2 billion;
ii. active and within the top 80 cash transactions in the previous year when the application was submitted;
iii. before submitting the application, have already tried the market-making business in the CIBM and have the necessary experience and capabilities;
iv. sound internal management system and operating procedures, and a sound internal risk control mechanism, incentives, and assessment mechanism;
v. strong bond market research and analysis capabilities;
vi. relevant business departments with more than five qualified bond practitioners with reasonable post settings and clear responsibilities;
vii. no illegal or major violations in the 2 years before the application is submitted; and
viii. other conditions stipulated by the PBOC.

A market maker may be entitled to (i) the convenience of purchasing bonds in the primary market; and (ii) gaining priority to become a member of the underwriting syndicates for government bonds or bonds of governmental development financial institutions, or a primary dealer for participation in open market operation.

A market maker, in accordance with the relevant requirements, continuously makes bilateral quotations for the purchase and sale of those debt financing instruments in the CIBM for which market making is required, and then transacts with other market participants on the basis of its quotations. Nonfinancial institutions placing orders via the CFAE are only able to enter into trades with market makers, which send their quotes to CFAE for display.

[76] See http://www.asianlii.org/cn/legis/cen/laws/pfanibmm628/.
[77] For a list of market makers, please refer to http://www.chinamoney.com.cn/english/mdtmmbrmm/.
[78] See http://www.fdi.gov.cn/1800000121_23_60931_0_7.html.

In recent years, market makers have quoted more varieties across more maturities of bonds, which has enhanced the quality and continuity of quotations in the market. The added variety has also improved CIBM liquidity as well as strengthened the formation of a market yield curve and better price discovery.

At the time of compilation of this bond market guide, NAFMII had issued the following self-regulatory rules related to market making:

- Guidelines on Market Making Operations in the Inter-Bank Bond Market (银行间债券市场做市业务指引) (4 August 2016), and
- Assessment Indicators for Market Making Operations in the Inter-Bank Bond Market (银行间债券市场做市业务评价指标体系) (4 August 2016).

f. Trustee Agent or Bond Trustee

The concept of a bond trustee (受托管理人) was introduced for debt financing instruments registered with NAFMII, together with corresponding rules, in December 2019 with effectivity from July 2020. Previously, some of the functions typically associated with a trustee agent, such as the administration of bondholder meetings, were performed in the CIBM by the lead underwriter.

Bond trustees could be the lead underwriter of a debt financing instrument, a financial asset management company, a trust company acting as an underwriter, or a law or other professional firm with experience in the debt financing instrument business.

The function of a trustee agent continues for debt financing instruments in the CIBM not registered with NAFMII such as financial bonds or other instruments approved by the PBOC. However, the PBOC may also introduce a formal trustee concept in the future.

Please see sections Q and S in this chapter for more information on CIBM practices commensurate with the typical obligations of a bond trustee.

g. Guarantor

In the event that an issuer of debt financing instruments needs to improve their attractiveness or chances to be able to issue at all, 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 the PBOC.

h. Bond Settlement Agent

Bond settlement agent is the term used in the CIBM for a qualified institution to provide the combined service of facilitating trading and settlement for foreign investors and those domestic investors that are not able to directly participate in the CIBM. Bond settlement agents can be securities firms or commercial banks. Depending on their license, bond settlement agents may also carry out securities trading on behalf of their clients, in addition to settlement and safekeeping services. Foreign investors wanting to invest in the CIBM through CIBM Direct will need to appoint a bond settlement agent as their primary service provider in the CIBM.

Pursuant to the Administrative Rules for the Issuance of Financial Bonds in the National Inter-Bank Bond Market and the Notice of the People's Bank of China on the Relevant Issues Concerning Launching the Bond Settlement Agent

Business, the term “bond settlement agent” refers to a financial corporation authorized by other market participants to conduct bond settlement and other business transactions for them. Bond settlement agents need to obtain PBOC approval prior to commencing their activities.

The bond settlement agent business includes

i. opening of a trading account at and network connection with CFETS in the name of the client;
ii. opening or canceling of a bond custody account for a client in the client’s name at CCDC or SHCH, and related activities;
iii. carrying out settlement activities for a client according to the instructions of the client;
iv. receiving (for a client) payment of bond interest and repayment of bond principal; and
v. conducting bond transactions with clients, including cash bond transactions and reverse repo transactions with nonfinancial institutions.

At the time of compilation of this bond market guide, the PBOC had approved 49 bond settlement agents, of which 19 institutions had the capabilities to service foreign investors. A list of bond settlement agents accessing CFETS is available from the CFETS website, if presently only in Chinese.[79]

i. Central Securities Depositories

The CIBM is serviced by CCDC and SHCH as CSDs with a focus on different debt financing instrument types and maturities. Both CSDs are state-owned financial market infrastructures responsible for the registration, clearing, settlement, safekeeping, margin management, and collateral management for direct and indirect transactions in debt financing instruments under their remit. In addition, SHCH may act as central counterparty (CCP) in the transactions executed by its account holders on CFETS, across all instrument types deposited with SHCH, if both trading counterparties are clearing members and agree to use the CCP service; this can be decided at the time of trade or when instructing SHCH. The use of the CCP for fixed income transaction settlement is not mandatory.

CCDC was established in 1996 under the approval of the State Council and was subsequently appointed by the MOF as the general depository for Treasury bonds and operator of the Bond Issuance System managed by the PBOC.

SHCH focuses on newer debt financing instruments and other products, and also clears and settles foreign exchange and derivatives transactions, as well as structured products. SHCH was established on 28 November 2009 under a directive of the PBOC.

Both CCDC and SHCH maintain accounts for the CMU of the Hong Kong Monetary Authority as part of the Bond Connect market access scheme. The CMU is the nominee holder of the debt financing instruments registered with either CCDC or SHCH.

[79] See http://www.chinamoney.com.cn/chinese/mtmemrmb/.

j. Law Firms

A law firm or legal counsel is required to provide a legal opinion on the issuer, the issuance documentation, and disclosure items for debt financing instruments intended to be registered with NAFMII or otherwise issued in the CIBM. Law firms involved in the issuance of debt financing instruments in the CIBM do not require approval from the PBOC. However, law firms acting for issuers in the CIBM need to be registered with NAFMII.

In addition, law firms at the domicile of a nonresident issuer of Panda bonds are involved in the issuance of such bonds in the CIBM, as regulations require them to provide a legal opinion on the issuer at the time of the registration of the proposed debt financing instrument with NAFMII or the request for approval from the PBOC, as the case may be. Please also see Chapter II.F for the complete description of the regulatory processes for issuances by nonresidents.

k. Accounting Firms

Accounting firms involved in the financial audit of issuers of debt financing instruments in the CIBM, compilation or audit of the relevant financial statements, or compilation of issuance documentation and supporting documents are subject to supervision by the MOF as the regulator for accounting subjects in the PRC. Accounting firms must be a member of NAFMII to provide services to issuers.

N. Definition of Professional Investors

Traditionally, the underlying laws and regulations governing the CIBM contained no formal concept or definition of a professional investor category. Instead, the use of the term "professional" had often been taken to mean experienced. At the same time, investors in the CIBM have nearly exclusively been financial firms or professional investment institutions, by their own assessment and using typical definitions applied in the international bond markets. In addition, a registration with NAFMII prior to participation in the CIBM ensured a vetting of qualifications.

The introduction of the Rules for Private Placement of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market by NAFMII in 2011, defining the concept of DIIs, formalized the existence of a category of institutional investors that—for all intents and purposes—could be considered professional by international standards. In late 2015, NAFMII added the category of SII and even published a positive list of such investors specializing in investments in debt financing instruments.

1. Designated Institutional Investors

On 29 April 2011, NAFMII issued the Rules for Private Placement of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具非公开定向发行规则), No. 6 (2011 Rules). Through these rules, NAFMII introduced both the private placement method (非公开定向发行, see Chapter III.E for a definition of this issuance method) and the concept of DIIs (特定机构投资人) or private placement investors (定向投资人).

The 2011 Rules stipulated that the term "private placement" (非公开定向发行) refers to the issuance of debt financing instruments by nonfinancial enterprises to a category of DIIs (特定机构投资人) in the CIBM, in effect a private placement to institutional investors who are subject to eligibility criteria and compliance with certain practices to maintain their status. Stipulating a private placement also meant that such placements can only be transferred within the scope of DIIs, creating a closed, near-professional market.

Consequently, debt financing instruments issued via the private placement method (非公开定向发行方式发行的债务融资工具) are referred to as privately placed debt financing instruments (非公开定向债务融资工具), or simply private placement instruments (定向工具).

The term private placement investors (定向投资人) used in the rules stems from the prescribed practice that an issuer or its appointed underwriter had to specifically identify (i.e., designate), upon every issuance, a list of institutional investors to which the debt financing instruments could be offered and issued.

Private placement investors who want to invest in private placement instruments should issue a written confirmation letter to NAFMII and confirm they are aware of the investment risk(s) of the private placement instruments, have the ability and willingness to assume the investment risk of the privately placed instruments, voluntarily accept the management by NAFMII of the CIBM participants, and fulfill any membership obligations.

2. Specialized Institutional Investors

The Rules for the Registration and Issuance of Debt Financing Instruments of Non-Financial Enterprises (非金融企业债务融资工具注册发行规则), issued by NAFMII on 6 November 2015 (2015 Rules), revised the 2011 Rules and introduced the concept of the SII (专项机构投资人).

Under the 2015 Rules, enterprises were able to issue private placement instruments to DIIs as well as SIIs. Article 20 of the 2015 Rules stipulated that SIIs refer to institutional investors who, in addition to having significant experience in CIBM investment and risk identification, are familiar with the risk characteristics and investment process of private placement instruments, have the willingness and ability to take risks, voluntarily accept the market participant management of NAFMII as the SRO for the CIBM, and fulfill any member obligations.

SIIs are selected by NAFMII in accordance with market principles and in line with the procedures determined by its Governing Council. For SIIs to invest in private placement instruments, they may have to sign a “private placement agreement” (定向发行协议), accept the rights and obligations stipulated in the agreement, and recognize the specific level of information disclosure described in the agreement.

To clarify the new rules and standardize the selection process for private placement investors, NAFMII issued the Provisions for the Selection of Specialized Institutional Investors of Private Placement Notes (定向债务融资工具专项机构投资人遴选细则) on 26 November 2015 and published a formal definition of an SII. Pursuant to Article 3 of the provisions, an institution that meets one of the following conditions may become an SII:

i. PBOC open market business-level dealer (中国人民银行公开市场业务一级交易商),
ii. market maker in the Inter-Bank Bond Market (银行间债券市场做市商),
iii. Inter-Bank Bond Market bond settlement agent (银行间债券市场债券结算代理人),
iv. debt financing instruments underwriting agency (债务融资工具承销机构),
v. credit risk mitigation tool core trader or credit risk slow-release voucher creation institution (信用风险缓释工具核心交易商或信用风险缓释凭证创设机构), or

vi. institutional investor whose average deposited debt financing instruments reach a certain size (债务融资工具平均托管量达到一定规模的机构投资人).

In Article 4 of the provisions, NAFMII listed 120 SIIs that fulfilled the criteria established in Article 3. The list is reviewed on an annual basis. At the time of the compilation of this bond market guide, the list contained 180 investors.

3. Wholesale Investors versus Retail Investors

Regulations relevant for the CIBM do not carry an official definition of what constitutes, for example, a wholesale investor or a retail, general, or public investor. References to the term wholesale in the primary market can usually be found in relation to Treasury bonds and other public sector bonds, which are underwritten by syndicated participants, and to other types of bonds offered through a book-building or subscription process. References to retail in the primary market tend to describe the issuing of bonds to the public through a resale from syndicated participants.

O. Credit Rating Requirements

This section details the actual domestic credit rating requirements for debt financing instruments issued in the CIBM 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. Credit Rating Overview

The PBOC serves as the main supervisory authority of the credit rating industry. As such, it is mainly responsible for drafting relevant rules and regulations governing the credit rating system and for drawing up development strategies and policies, among other responsibilities (Table 3.9). CSRC supervises credit ratings in the exchange bond market, while NDRC oversees credit ratings for enterprise bonds. Issuers pay the credit rating cost and request CRAs to evaluate bonds.

Table 3.9: Credit Rating Regulations and Provisions for the Inter-Bank Bond Market

Regulations and Measures on the Credit Ratings for the Issuance of Bonds and Notes • Administrative Rules for the Issuance of Financial Bonds in the National Inter-Bank Bond Market • Administrative Measures for Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market • Provisional Administrative Rules on International Development Institutions' Issuance of RMB Bonds
People's Bank of China Announcement No. 22, 2004 • Notice of the People's Bank of China on Strengthening the Management of Credit Rating Practices in the Inter-Bank Bond Market • Guiding Opinions of the People's Bank of China for the Management of Credit Ratings • Specification for Credit Rating in the Credit Market and Inter-Bank Bond Market

Source: ASEAN+3 Bond Market Forum Sub-Forum 1 team compiled from public domain sources.

In November 2006, the PBOC released the Specification for Credit Rating in the Credit Market and Inter-Bank Bond Market, which contained a unified definition for the classification, symbol, and meaning of short-, medium-, and long-term credit ratings in the CIBM.

Table 3.10: Credit Rating Ranks for Short-Term Bonds in the Inter-Bank Bond Market

Credit Rank	Meaning
A-1	Strongest capacity to repay the loan and accrued interest, with the highest security
A-2	Relatively strong capacity to repay the loan and accrued interest, with relatively high security
A-3	Moderate capacity to repay the loan and accrued interest, with security that is vulnerable to an unfavorable economic environment
B	Relatively weak capacity to repay the loan and accrued interest, and somewhat vulnerable to default risk
C	Very weak capacity to repay the loan and accrued interest, with relatively high default risk
D	Unable to repay the loan and accrued interest

Note: Slight adjustment to each rank is not allowed.
Source: People's Bank of China.

Table 3.11: Credit Rating Ranks for Medium-Term and Long-Term Bonds in the Inter-Bank Bond Market

Credit Rank	Meaning
AAA	Extremely strong capacity to pay the debt, free from the influence of an unfavorable economic environment, and extremely low default risk
AA	Very strong capacity to pay the debt, insignificantly affected by an unfavorable economic environment, and very low default risk
A	Relatively strong capacity to pay the debt, relatively easy to be affected by an unfavorable economic environment, and relatively low default risk
BBB	Moderate capacity to pay the debt, somewhat significantly affected by an unfavorable economic environment, and moderate default risk
BB	Relatively weak capacity to pay the debt, significantly affected by an unfavorable economic environment, and relatively high default risk
B	The capacity to pay the debt somewhat mainly dependent on a sound economic environment, and very high default risk
CCC	The capacity to pay the debt extremely dependent on a sound economic environment, and extremely high default risk
CC	Relatively weak protection in case of bankruptcy or reorganization, with capacity to pay the debt that can hardly be guaranteed
C	Unable to pay the debt

Note: Except for AAA, CCC, and ranks below CCC, a "+" or "–" can be used for a slight adjustment to indicate a slightly higher or lower grade than that of the corresponding rank.
Source: People's Bank of China.

Table 3.10 shows the credit rating ranks for short-term bonds and Table 3.11 for medium-term and long-term bonds in the CIBM. The credit rating ranks for short-term bonds in the CIBM can be divided into six levels in four classes: A-1, A-2, A-3, B, C, and D. No slight adjustment may be made to each rank. The ranks of credit rating for medium-term and long-term bonds are divided into nine levels in three classes: AAA, AA, A, BBB, BB, B, CCC, CC, and C. Slight adjustments are possible and expressed by the use of "–" and "+" indicators.

2. General Credit Rating Practices in the Inter-Bank Bond Market

In the CIBM, the credit rating business is examined and supervised by the PBOC. Pursuant to PBOC regulations and depending on the type of offering, all institutions planning to issue bonds in the CIBM and the bond itself have to be rated by a bond CRA that is registered with NAFMII.

The credit rating requirement is mandatory for public offerings of debt financing instruments, including Panda bonds, and one rating is accepted for the registration of debt financing instruments with NAFMII. An exception exists for commercial paper and SCP, for which only an issuer rating is required due to the very short tenor of these instruments. A credit rating for debt financing instruments issued via private placements, also including Panda bonds, is not mandated for registration with NAFMII, and may be subject to agreement between issuer and investors. An issuer may choose to have different bond issues or issuance programs rated by different CRAs, which in consequence may lead to multiple issuer ratings.

In addition to the initial credit rating for the bonds, the qualified CRA is required to perform the so-called track rating (i.e., a periodical review of the credit rating at issuance during the lifecycle of the bonds). The issuer should include the track rating arrangements in the issuance and disclosure documentation upon issuance and in the registration application with NAFMII, and publish the same via a website accredited by NAFMII such as DCM-FANS. Domestic government bonds and PFBs are exempted from the credit rating requirements.

The CRA should also rate the issuer planning to issue a guaranteed bond, a bond with a mortgage, or a bond with appreciated value if a guarantee or security service is provided.

The issuance of a financial bond is subject to credit rating by a competent CRA. After the issuance of a financial bond, the CRA shall conduct a follow-up credit rating for the bond on an annual basis. In the event of the occurrence of any important event that may affect the credit rating of the financial bond, the CRA shall adjust the credit rating of the financial bond in a timely manner and disclose the relevant information to the investors.

3. Credit Rating Practices for Panda Bonds

Pursuant to the relevant regulations of the PBOC and the MOF, and the rules of NAFMII, a minimum of one credit rating assigned by a qualified CRA in the CIBM is accepted for the registration of Panda bonds. Most Panda bond issuers have an investment-grade rating by an international CRA as an observed practice, which is equivalent to a AAA rating in the PRC.

On 25 September 2018, the PBOC and the MOF officially implemented the Interim Measures for the Administration of the Issuance of Bonds by Overseas Institutions in the National Inter-Bank Bond Market (PBOC and MOF Announcement No. 16, 2018). Article 7 of these measures stipulates that credit rating reports and follow-up rating arrangements (if any) are optional. At the same time, if an overseas institutional issuer wishes to publicly disclose a credit rating (report), the credit rating shall be issued by a CRA accredited in the CIBM and registered with NAFMII.

With the above measures coming into effect, the Interim Measures for the Administration of the Issuance of RMB Bonds by International Development Institutions (2010 Revision) were formally abolished.

4. Credit Rating Practices for Private Placements

In the case of an issuance of debt financing instruments via a private placement, including Panda bonds, a credit rating is not mandatory. In fact, the issuance documentation and disclosure practices agreed between issuer and investors can include specific provisions for the credit rating and tracking practices for each individual issuance, as stipulated in particular for Panda bonds, in Article 23 of the NAFMII Guidelines for Panda bond issuance.

5. Credit Rating Practices for Commercial Paper

Pursuant to Article 9 of the NAFMII Guidelines on the Issuance of Commercial Paper of Non-Financial Enterprises in the Inter-Bank Bond Market, promulgated in 2008, if the main credit level of an enterprise becomes lower than the credit level at the time of issuance registration, the issuance registration of commercial paper will automatically expire, and NAFMII will publicly announce this development.

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 debt financing instruments 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.

One such institution providing financial guarantee services or corporate credit enhancement services for debt financing instruments in the CIBM is the China Bond Insurance Co. Ltd., based in Beijing.[80]

Q. Market Features for Investor Protection

The CIBM features a number of mechanisms that are aimed 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.

Investor protection is also highlighted in the regulations governing Panda bond issuance in that the nonresident issuer has to appoint an independent entity to ensure that certain investor protection mechanisms are in place (see section 3 for details).

Features in the CIBM, and those inherent to the capital market in the PRC, with a specific focus on investor protection are explained in the following sections.

[80] This has been reported by Bloomberg. The website of China Bond Insurance Co., Ltd. is presently only available in Chinese at http://www.cbicl.com.cn.

1. Regulatory Framework

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 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).

The PBOC established a set of mechanisms to ensure the proper sharing of risks among issuers, market participants, intermediaries, and investors. These mechanisms specify obligations and responsibilities of underwriters, accounting firms, law firms, CRAs, and other intermediaries.

NDRC emphasizes protecting the investors' interests and encourages and guides issuers and underwriters to explore effective methods to improve credit worthiness and raise funds. NDRC also focuses on a reduction of risk and has introduced the concept of bondholders' meetings for enterprise bonds, a debt proxy system, and the mortgage assets supervisor system. It requests issuers to formulate a practical and feasible debt repayment plan and safeguard measures, and encourages issuers to obtain a guarantee for the debt repayment.

NAFMII promotes investor protection mechanisms in the nonfinancial enterprise debt capital market. It formulated self-regulatory rules, such as the Rules and Procedures for Meeting of Debt Financing Instrument Holders of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具持有人会议规程), revised with effect from 1 July 2020. The NAFMII document sets clear conditions for the need to organize a debt financing instrument holder meeting.

Under these rules, the issuer shall agree in the prospectus or other offering document on the convener (召集人) of the debt financing instrument holder meeting. The convener is responsible for organizing a debt financing instrument holder meeting to solicit and collect the views of holders of debt financing instruments on material events, and to perform the duties of information disclosure and support the raising of required documentation and their retention.

Under provisions in the PBOC's Guidelines on the Issuance of Non-Financial Enterprises Medium-Term Notes in the Inter-Bank Bond Market, the issuer shall state the applicable investor protection mechanism(s) in the offering document when issuing MTN, including effective measures to be taken to cope with any downgrading of the credit rating, a deterioration of the financial status of the issuer, or other situations that may affect investors' interests, as well as details on claim arrangements in case of events of default.

2. Investor Complaints

Investor complaints in the CIBM are handled by NAFMII. As the SRO in the CIBM, NAFMII mediates disputes between its members. For this, NAFMII promotes communication among the parties to reach agreements. With regard to alleged misconduct that may violate self-regulatory rules, NAFMII takes self-disciplinary actions on the members after an in-depth investigation. For activities that might violate relevant laws and regulations, NAFMII may transfer the cases to the competent authorities in accordance with the law enforcement arrangements in the CIBM.

3. Bond Trustee Concept

Until the end of 2019, the CIBM had not featured a formalized concept for a bond trustee or debt financing instrument holder’s representative similar to the one available in the exchange bond market, or in other regional markets. In December 2019, NAFMII introduced guidelines for a bond trustee concept and related transitional notices as well as their application in rules for debt financing instrument holder meetings for debt financing instruments (to be) registered with NAFMII. These guidelines and rules take effect from 1 July 2020. Please see section S in this chapter for more details on the bond trustee concept.

At the same time, past regulations already required the inclusion of provisions for bondholder representation, meetings, and resulting procedures in the issuance documentation for debt financing instruments to ensure that basic investor protection features were in place.

As an example, Article 25 of the PBOC Interim Measures (for Panda bond issuance) stipulated that overseas issuers shall establish investor protection mechanisms and engage an entity within the PRC that is independent from the issuer to safeguard the interest of debt financing instrument holders during the life of the debt financing instrument. Such independent entities shall act diligently, independently, and fairly, and oversee the issuer to implement the investor protection mechanisms including, among other things, disclosing material events and convening debt financing instrument holder meetings. This function was also referred to in market practice as a “post-registration manager” and is typically performed by the (lead) underwriter of a bond issuance. In principle, the referenced entity performs a function similar to a dedicated bond trustee or bondholders’ representative in other markets.

4. Introduction and Application of Investor Protection Covenants

As part of its commitment to ensuring investor protection in the CIBM, NAFMII has been promoting the introduction and use by market participants of investor protection covenants. NAFMII first published examples of investor protection clauses in September 2016 and formally published its Model Investor Protection Clauses (投资人保护条款示范) in April 2019.

Please also see Chapter IX.A.1 for more information on the model clauses.

5. 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.

6. Investor Protection Fund or Similar Mechanism

Due to the nature of the CIBM as an OTC market, a single investor protection fund or similar mechanism is not available. At the same time, the CIBM features inherent investor protections through market mechanisms such as investor screening and the eligibility criteria and registration of market participants including issuers, investors, and intermediaries.

7. Foreign Investors

Foreign institutional investors designated as QOII—including QFII and RQFII (see also Chapter II.N for more details)—are afforded the same rights as domestic investors and occupy the same creditor positions as domestic investors, including in the event of nonpayment of interest or principal on a bond or note, a default by the issuer or the issuer's bankruptcy or insolvency.

Most institutions and market infrastructure providers in the CIBM—or securities market at large—provide information in English in official materials and on their websites.

R. Debt Financing Instrument Holder Meeting

Rules for debt financing instrument holder meetings related to debt financing instruments issued in the CIBM are defined through NAFMII rules and guidelines since they are not contained in fundamental or key legislation such as the Company Law.

To effectively support the concept of a debt financing instrument holders meeting, NAFMII established an investor protection framework, which defines the triggers for and conduct of debt financing instrument holder meetings and their expected outcome. The framework contains clauses for investor protection for issuance and disclosure documentation related to those debt financing instruments issued in the CIBM that are (to be) registered with NAFMII. The latest rules on meetings of debt financing instrument holders were published by NAFMII in December 2019 and take effect in July 2020.

NAFMII also stipulates in its rules and guidelines that Panda bond (nonresident) issuers shall specify, in their registration and offering documents of their debt financing instruments (to be) registered with NAFMII, the relevant arrangements for debt financing instrument holder meetings and related practices.

Due to the underlying nature of NCD as a money market instrument, there are no provisions in regulations for NCD holder meetings. Market feedback confirmed that no NCD holder meeting has been held in the CIBM since the market's inception. Other than their short tenors, this is also attributed to the fact that NCD issuers are deposit-taking financial institutions with a high credit rating and that issuers have to file their planned issuances with the PBOC on an annual basis prior to any issuance.

1. Appointment of a Convener

In the Rules and Procedures for Meeting of Debt Financing Instrument Holders of Non-Financial Enterprises in the Inter-Bank Bond Market (revised), published on 27 December 2019 and effective 1 July 2020, NAFMII emphasized the role of a convener (召集人) of the debt financing instrument holder meeting. The role of convener had been introduced in the earlier version of the rules issued in 2013. The issuer will need to name the convener in the issuance documentation.

The convener is expected to be the lead underwriter, which ensures continuity as the respective tasks of the convener were previously also typically carried out by the lead underwriter, under a less formalized arrangement.

The convener is responsible for (i) organizing meetings of debt financing instrument holders to request and collect the views of holders of debt financing instruments on important matters, (ii) carrying out duties relating to information disclosure and the creation of documents for that purpose, and (iii) retaining all relevant documents for the relevant periods.

2. Triggers of Debt Financing Instrument Holder Meeting

The revised Rules and Procedures for Meeting of Debt Financing Instrument Holders of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具持有人会议规程 (修订稿)), effective 1 July 2020, contain a number of prescriptions for the triggers of a debt financing instrument holders meeting during the lifecycle of a debt financing instrument; the relevant provisions can be found in Article 9.[81]

Accordingly, the convener shall convene a meeting of the debt financing instrument holders (持有人会议) if one of the following circumstances arises:

i. the principal or interest of the debt financing instruments or other domestic and foreign bonds issued by the issuer fails to be paid in full and on time as agreed;
ii. the issuer intends to transfer the debt financing instrument to pay off the obligation;
iii. the issuer intends to change the credit enhancement arrangement of the debt financing instrument or the credit enhancement arrangement, and the institution providing credit enhancement services has a major adverse change in solvency;
iv. the issuer intends to reduce capital, merge, separate, or dissolve, file for bankruptcy, be ordered to stop production and suspend business, be suspended, or have the license revoked or suspended;
v. the issuer may, for example, reduce its net assets by more than 10% of the last audited net assets or exceed the net assets of the latest period within 24 months as a result of a proposed asset sale, transfer, nonreimbursable transfer, debt relief, correction of accounting errors, accounting policies (except for changes in requirements such as laws, administrative regulations, or national uniform accounting systems) or changes in accounting estimates, or the net assets of the issuer, or in the event of a significant adverse effect on the sustained and sound operation;
vi. the issuer has a situation that could result in the loss of actual control over an important subsidiary;
vii. the issuer intends to carry out a major asset reorganization;
viii. proposed dismissal or change of bond trustee, or change of bond trustee agreement terms involving rights and obligations of the debt financing instrument holders;
ix. a written proposal is made by the debt financing instrument holders holding more than 30% of the balance of the debt financing instrument, individually or collectively, for the same period;
x. the circumstances in which the meeting of the holders shall be held as agreed in the issuance document; and
xi. other circumstances as prescribed by laws, regulations, and relevant self-regulation rules shall be decided by the meeting of the debt financing instrument holders.

Pursuant to the NAFMII Rules for Information Disclosure on Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具信息披露规则), effective on 18 December 2017, the issuer of a debt financing instrument will need to disclose during the lifetime of that instrument any material event that may affect its solvency; this includes, but may not be limited to, the reasons given above leading to a debt financing instrument holder meeting.[82]

[81] See http://www.nafmii.org.cn/ggtz/gg/201912/t20191227_78733.html.
[82] See http://www.nafmii.org.cn/zlgz/201712/t20171212_66667.html.

3. Attendance by the Bond Trustee

Pursuant to the Guidelines for Bond Trustee Business of Non-Financial Enterprise Debt Financing Instruments in the Inter-Bank Bond Market (for Trial Implementation), effective 1 July 2020, the bond trustee appointed to a debt financing instrument is required to attend any meeting of debt financing instrument holders or to remain informed about such proceedings.

S. Bond Trustee or Trustee

A dedicated bond trustee (受托管理人) concept in the CIBM did not exist until the end of 2019, although NAFMII had previously prescribed a number of investor protection roles commonly attributed to a trustee in other markets.[83]

At the same time, regulations set by the PBOC and NAFMII include provisions for the issuer of debt financing instruments in the CIBM, including for nonresident issuers of Panda bonds, to describe specific investor protection mechanisms in their issuance documentation such as the practices for holding meetings of debt financing instrument holders and the corresponding procedures. A general trustee function is also evident in the context of structured instruments such as ABS or ABN.

1. Introduction of a Bond Trustee

NAFMII published the Guidelines for Bond Trustee Business of Non-Financial Enterprise Debt Financing Instruments in the Inter-Bank Bond Market (for Trial Implementation) (银行间债券市场非金融企业债务融资工具受托管理人业务指引(试行)) and its related supporting notices on the Transitional Arrangements on Recording Matters Related to Bond Trustee Business (过渡期安排的通知/受托管理业务相关备案事项的通知) on 27 December 2019, with an effective date from 1 July 2020; NAFMII indicated that other corresponding notices may be published to further refine the function and related practices by the effective date; the bond trustee, the bond trustee agreement, and related obligations and activities were subsequently described in the Registration Documents and Forms for Non-Financial Enterprises Publicly Offering Debt Financing Instruments, issued by NAFMII in April 2020 and effective from 1 July 2020.

According to the guidelines, effective from 1 July 2020, the issuer shall appoint a bond trustee for the holders of any debt financing instrument issued by a nonfinancial enterprise and sign a bond trustee agreement (受托管理协议) that meets the requirements of the guidelines.[84]

NAFMII administers the bond trustees and may implement mechanisms to evaluate their performance. The following institutions may apply to NAFMII to act as bond trustee:

[83] The English term "bond trustee," as suggested in an unofficial translation of the guidelines, is a concept originating from common law. The concept of a bond trustee in a jurisdiction with an original civil law tradition may not represent the concept of the bond trustee as defined in common law jurisdictions. Other markets with a civil law tradition instead use terms such as "bondholder representative." At the same time, English translations of the Chinese term "受托管理人" have been using bond trustee, likely to limit the application of the concept to the bond market. Therefore, this bond market guide is using the English term bond trustee based on the current practice by NAFMII and for consistency.

[84] The Chinese term "受托管理协议" translates into "bond trustee management agreement" or "bond trustee agreement." In view of the fact that the words trustee and management in the same term are potentially ambiguous as management in the capital market is an activity typically defined and regulated separately from trustee activities. As such, the term bond trustee agreement is used in this bond market guide throughout.

i. the lead underwriter of the debt financing instrument;
ii. a financial asset management company holding a financial license;
iii. a trust company with business qualification as an underwriter of debt financing instruments; and
iv. a law firm or other professional institutions with experience in debt financing instruments.

Once the relevant institution meets all qualification criteria set out in the guidelines, it may file the application and documents prescribed in the related NAFMII notice.

The applicant will need to establish a dedicated bond trustee team and mechanisms to prevent any conflicts of interest such as a firewall concept or separation of personnel. The guarantor of a bond or the law firm advising the issuer for an issuance are not able to act as the bond trustee for the debt financing instrument. Any residual conflict of interest situation, such as a capital affiliation between the issuer and bond trustee, is to be disclosed in the bond trustee agreement.

The guidelines prescribe fiduciary duties for the bond trustee that include

i. managing and safeguarding the legitimate rights and interests of debt financing instrument holders;
ii. participating in debt restructuring efforts on behalf of the holders;
iii. applying for asset retention, filing a lawsuit, or for arbitration on behalf of the holders;
iv. participating in insolvency proceedings on behalf of the holders; and
v. other duties as may be prescribed in the bond trustee agreement.

The duties described above include the need to obtain certification of guarantees for a debt financing instrument, if so applicable. The trustee has to report to debt financing instrument holders if any of the above conditions or a change to its duties or the ability to carry out these duties occurs; specific time frames for individual duties may apply.

With the formalization of a bond trustee concept, the change of bond trustee for a debt financing instrument registered with NAFMII has become a reason for the convening of a debt financing instrument holder meeting (see section R for details).

2. Use of a General Trustee

In the context of the issuance and administration of ABS or ABN, the term “trustee” is used in the text of regulations and in documentation. Here, separate from the bond trustee, the term trustee is used to describe the function of an administrator of an ABS and potential issuer of an ABN, with the specific role of collecting cash flows and facilitating the repayment of principal and interest to investors, whether that be in the form of a financial institution as service provider or as a special purpose vehicle.

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.[85]

[85] Information in part adapted from http://en.wikipedia.org/wiki/Bankruptcy_in_the_People's_Republic_of_China.

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 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 involving financial institutions and are mainly focused on debtor–creditor relationships.

After an enterprise is declared bankrupt in accordance with the Enterprise Bankruptcy Law, its collateral property does not belong to the estate but rather 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 costs involved in a bankruptcy case; expenses for management, realization, and distribution of the debtor's assets; and expenses involved in the administrator's performance of these duties and payment 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 the same sequence 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 the Financial Institution Bankruptcy Management Regulations, aiming to find a resolution to the problem of large financial institutions too big to fail.[86]

In general, mechanisms or measures that an issuer can adopt to improve its chances of solvency and exercise risk control include, but are not limited to, the following:

[86] 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*.[87]

U. Event of Default and Cross-Default

In contrast to the exchange bond market and the region's more mature bond markets, PBOC measures do not contain specific definitions of default or the practices for defining or declaring an event of default, including the time of default.

In the Guidelines for Default and Risk Disposal on Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具违约及风险处置指南), published by NAFMII on 27 December 2019 and effective from 1 July 2020, "default" refers to an issuer's failure to pay in full the principal or interest of a debt financing instrument as agreed, and includes statutory or agreed reasons such as bankruptcy, or if the debt financing instrument is due for repayment earlier than the maturity date and the issuer is not in a position to pay principal and interest in full and on time.

If a debt financing instrument issuance document or other agreement concluded between the issuer and debt financing instrument holders, or with the bond trustee in future, sets a grace period for payment, the date payable for principal and interest shall be the expiration date of the grace period.

In addition, the NAFMII Rules for Information Disclosure on Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market (银行间债券市场非金融企业债务融资工具信息披露规则) stipulate the default of an enterprise in the event of failure to pay off major debts due (企业发生未能清偿到期重大债务的违约情况) as that, during the life of the debt financing instrument, the enterprise shall promptly disclose to the market when a material event may affect its solvency.

The issuer has to stipulate in the prospectus or other such key disclosure document the circumstances that would lead to a default of the debt financing instrument(s); 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 debt financing instrument has occurred. Usually, a default occurs at the end of the day.

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 debt financing instrument's legal

[87] 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=OBWIbFgNhLNomwBI%2B33QzdFhRQAhp8D%2BxrIGReI2crGqLnALtlyZe2l6bUKAO8L%2FFGIGwcvi3Hbp%0D%0A5mt12P8Wnx03DzsaBGwsIB3EVF8XihbSpJa3xHNE7tFeHpEbaeIf&attachmentsize=30182406.

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 the depository or a default in the delivery of debt financing instruments to the depository.

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. This type of default is often called a technical default, because it is specific to a single transaction (gross settlement) or the result of one or more transactions defaulting as part of a net settlement process, and may not signal a general inability of a participant to meet its obligations to the market at large. If the participant is not an issuer, there are no market consequences beyond the settlement failure.

Covenants, Cross-Default, and Acceleration Clause

The use of a cross-default clause is increasingly common in issuance documentation. An acceleration clause is also becoming 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.