I

Overview

A. Overview of Bond Market Segments

The bond market in the People's Republic of China (PRC) is divided into three market segments: (i) the China Inter-Bank Bond Market (CIBM), (ii) the exchange bond market, and (iii) the commercial banks' counter market. Free-trade zone bonds are not so much a separate market segment as a distinct bond type in the CIBM. Considering the scale of these market segments, the CIBM and the exchange bond market are the dominant segments (Table 1.1); the commercial banks' counter market in effect represents a market segment for on-selling debt financing instruments issued and traded in the CIBM to general and retail investors.

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

The scale and style of regulation differs between the CIBM and the exchange bond market. The markets have historically adopted different regulatory approaches from one another. For example, under the supervision of the People's Bank of China (PBOC), the National Association of Financial Market Institutional Investors (NAFMII) admits and administers active market participants and intermediaries in the CIBM and facilitates the registration of debt financing instruments issued by nonfinancial enterprises, pursuant to its mandate as the market's self-regulatory organization (SRO). The PBOC admits foreign institutional investors to the CIBM via a number of investment avenues and also approves issuances by financial institutions.
In comparison, in the exchange bond market, the China Securities Regulatory Commission (CSRC) and the Securities Association of China (SAC), as SROs, and the stock exchanges, as listing and trading authorities, cooperate on regulations with each covering different regulatory objectives. Listing and trading in the exchange bond market falls under the unified guidance of CSRC, which resulted in the establishment of similar and consistent rules at the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

In another example of rules and regulations that differ between these markets, bonds issued in the exchange bond market are legally defined as securities under the Securities Law, while many such instruments issued in the CIBM are not regarded as securities and instead are referred to as debt financing instruments. This is due to the legacy of the different regulatory systems in the PRC. Consequently, this bond market guide uses the term debt financing instruments instead of debt securities.

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

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

N.A. = not applicable, QFII = Qualified Foreign Institutional Investor, QOII = Qualified Overseas Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor, SME = small and medium-sized enterprises.
Source: Deutsche Bank (partly amended by ASEAN+3 Bond Market Forum [ABMF] Sub-Forum 1 team compilation based on ABMF member input).

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

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

B. Introduction to the China Inter-Bank Bond Market

The CIBM is an over-the-counter (OTC) market in which admitted participants agree on trades using the common trading platform provided by the China Foreign Exchange Trade System (CFETS), trade using a market-maker, or conclude trades between themselves via phone or other means. General or individual investors cannot directly participate in this market.

The CIBM started in June 1997, originally as a traditional interbank market between the PBOC and commercial banks, following commencement of the PBOC's open market operation. The origins of some of the institutions and technical terms (see Appendix 5) used in the CIBM today go back to this original purpose of the market. For example, CFETS is also known as the National Interbank Funding Center (and uses Chinamoney as its web handle), which describes its function in the classical interbank market to this day; however, for the purpose of this bond market guide, the role of the National Interbank Funding Center is not directly relevant and, hence, need not be described here in further detail.

The origins of the CIBM also provide context for the ongoing issuance and trading of negotiable certificates of deposit (NCD), which might be considered a bank product or money market instrument in many other jurisdictions and not tradable in the bond market. Since inception, the purpose of the interbank market has gradually expanded, with new instrument types added over time to support the financing of participating public sector entities and banking institutions, as well as the admission of many additional participants beyond the original constituents, resulting in the CIBM—with the emphasis on China Inter-Bank Bond Market—as it appears today.

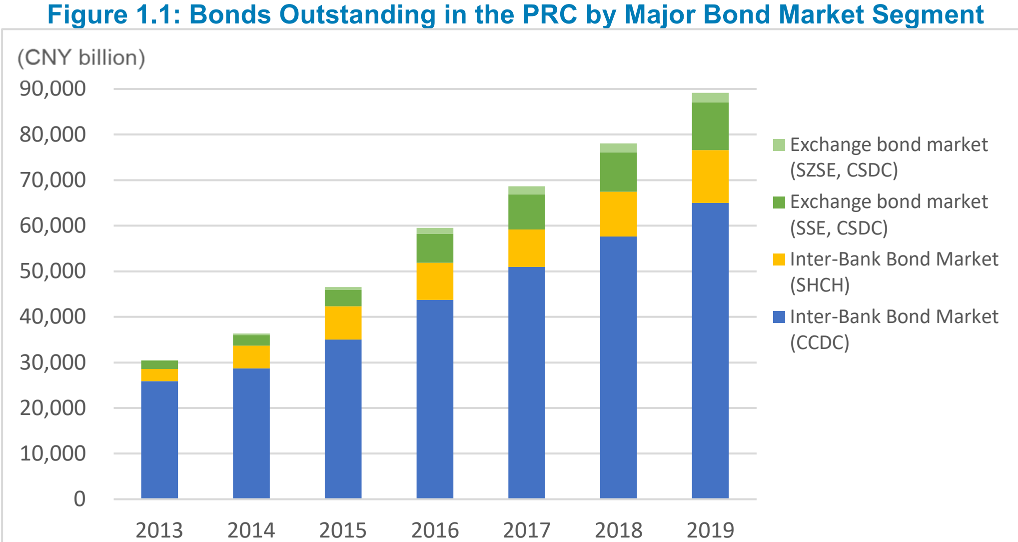
The CIBM is presently the largest bond market segment in the PRC. Debt instruments issued, traded, and settled in the CIBM consist of mainly public sector bonds, held by the China Central Depository & Clearing Co., Ltd. (CCDC); and supplementary private sector instruments, held by the Shanghai Clearing House Co., Ltd. (SHCH). More than half of the private sector instruments deposited with SHCH at the end of 2019 were money market instruments such as NCD, super short-term commercial paper (SCP), and commercial paper (see section 1 for more details).

The CIBM is considered an institutional market by its participants; general or individual investors are not able to access this market directly. At the same time, access to publicly offered debt financing instruments issued and traded in the CIBM for general or retail investors is possible via the commercial banks' counter market, in which commercial banks on-sell bonds and notes acquired in the CIBM to individual and other investors that cannot participate in the CIBM directly. This practice, in effect, makes the commercial banks' counter market an extension of the CIBM and ensures that issuers continue to issue via public offerings for debt financing instruments to be eligible for the on-selling to general or retail investors. In addition, retail investors can access the NCD market indirectly, via a mobile phone investment in money market fund products, such as those offered by online payment providers.

CIBM participants include banks, other financial institutions (such as fund management companies and insurance companies), and nonfinancial institutions. Issuers, intermediaries, and service providers must be registered with NAFMII—in fact, they must acquire NAFMII membership—to participate in the CIBM, while end-investors need not unless they want to qualify for specific issuances of private placement notes (PPN). The CIBM and its participants are overseen and regulated by the PBOC and administered by NAFMII as the market's SRO. The National Development and Reform Commission (NDRC) sets regulations for and registers the issuance of enterprise bonds as well as the issuance of debt securities abroad by enterprises, while the State Administration of Foreign Exchange (SAFE) governs any applicable currency quotas and the inflow and outflow of foreign exchange in the PRC.[1] The China Banking and Insurance Regulatory Commission (CBIRC) licenses and supervises the actions of banks and insurance companies.

At the end of 2019, the outstanding balance in the CIBM (i.e., debt financing instruments deposited at CCDC and SHCH) represented approximately 86% of the total outstanding balance of bonds and other debt financing instruments deposited at the three securities depositories in the PRC: CCDC, SHCH, and the China Securities Depository and Clearing Co., Ltd. (CSDC) for the exchange bond market (Figure 1.1).

Figure 1.1: Bonds Outstanding in the PRC by Major Bond Market Segment



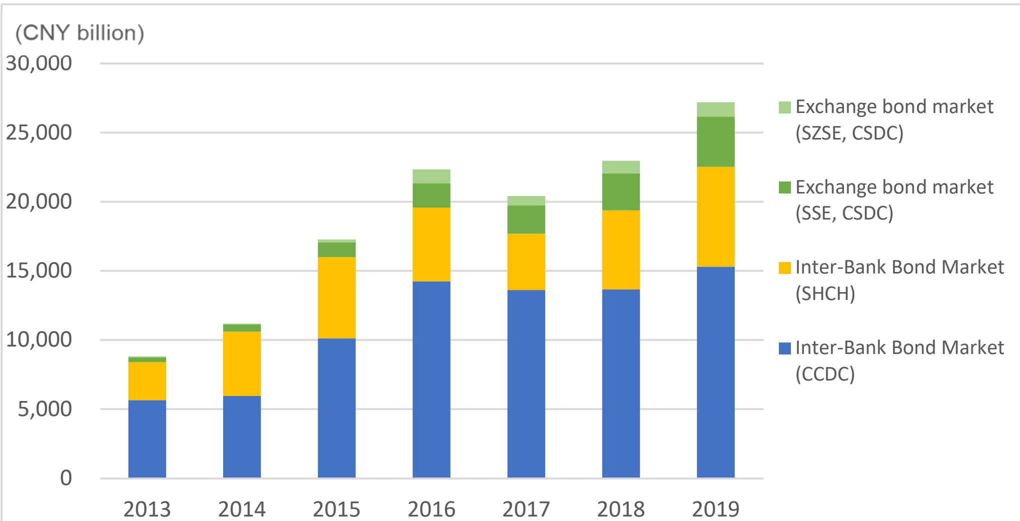
CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Notes: Bonds at par value. Data for CCDC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

[1] In principle, and for convenience in this bond market guide, bonds that need an application for registration with NDRC for issuance are called enterprise bonds. Other company bonds are distinguished as corporate bonds. Both corporate bonds and enterprise bonds are bonds issued based on the creditworthiness of the issuing companies themselves. "Collective bonds" issued by local enterprises are included among enterprise bonds.

1. Debt Financing Instrument Issuance in the Inter-Bank Bond Market

At the end of 2019, the issuance amount of debt financing instruments in the CIBM (settled and deposited at CCDC and SHCH) represented approximately 82.8% of the total issuance of bonds and notes settled and deposited at the three securities depositories in the PRC (Figure 1.2a). This proportion has decreased slightly in recent years; for example, the proportion was 84.5% in 2018.

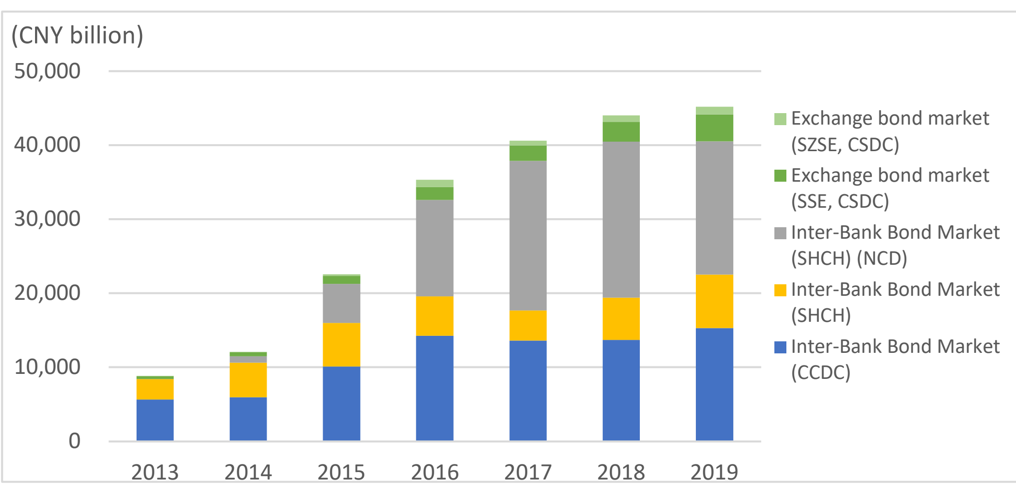
Figure 1.2a: Bond Issuance in the PRC by Major Bond Market Segment



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

At the same time, if NCD issuances are included in the statistics, the combined issuance numbers in the CIBM show a steady increase (Figure 1.2b).

Figure 1.2b: Bond Issuance in the PRC by Major Bond Market Segment—including NCD deposited at SHCH



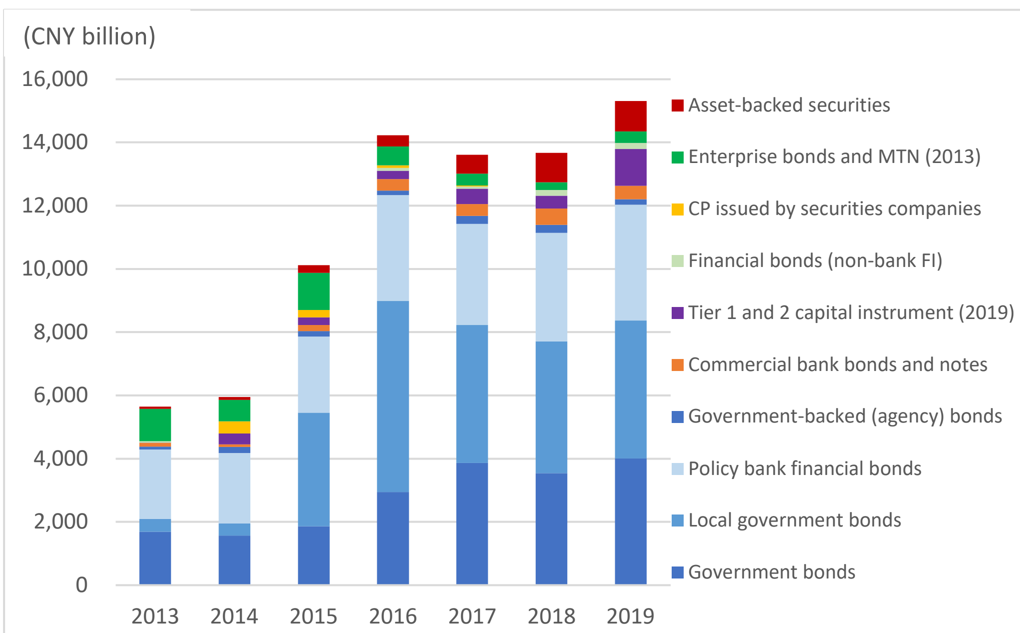
CCDC = China Central Depository & Clearing Co., Ltd.; CNY = Chinese renminbi; CSDC = China Securities Depository and Clearing Co., Ltd; PRC = People's Republic of China; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Note: Statistics for SHCH include negotiable certificates of deposit (NCD).
Sources: CCDC, CSDC, SHCH, SSE, and SZSE.

Today, debt financing instruments issued and traded in the CIBM cover a wide range of instruments, including government bonds, local government bonds, policy bank financial bonds (PFBs), government-backed (agency) bonds, central bank bills, enterprise bonds, financial bonds (commercial bank bonds and notes, non-bank financial institution bonds), as well as medium-term notes (MTN), commercial paper and SCP, PPN, and asset-backed notes (ABN) and asset-backed securities (ABS).[2] Panda bonds—debt financing instruments issued by nonresident issuers—are also issued and traded in the CIBM. In addition, NCD represent an important instrument issued and traded in the CIBM, while repurchase agreement (repo) transactions are a common product type.

Given its size and the large variety of debt instruments in the CIBM, the market is serviced by two entities acting as depository and settlement institutions: CCDC and SHCH. Debt financing instruments deposited at CCDC in 2019 represented 37.8% of the total issuance volume in the CIBM that year when NCD issuance is included, while the amount of new issuances deposited with SHCH in 2019, including NCD, represented 62.2% of the total issuance volume in the CIBM in 2019.

Figure 1.3 gives an illustration of the proportion of the types of debt financing instruments that were deposited with CCDC in recent years. Bond issuances in the CIBM being deposited with CCDC largely consist of public sector bonds; in 2019, the proportion of public sector bonds issued in the CIBM and deposited with CCDC was approximately 79.7%.

Figure 1.3: Bond Issuance in the CIBM and Deposited with CCDC by Instrument Type



CCDC = China Central Depository & Clearing Co., Ltd; CIBM = China Inter-Bank Bond Market; CNY = Chinese renminbi; CP = commercial paper; FI = financial institutions; MTN = medium-term notes.
Sources: *CCDC Annual Review, 2013* (English). pp.13–14; *CCDC Bond Market Statistical Analysis Report, 2014–2017*; *CCDC Annual Report, 2016–2017*, *CCDC Bond Market Operation Analysis, 2017*; *CCDC 2018–2019/12* 统计月报: 2-01 债券发行量(按券种).

[2] ABS do not constitute securities under the Securities Law.

Table 1.2 provides further insight into the value of debt financing instruments issued in 2019 and deposited with CCDC by instrument type.

Table 1.2: Debt Financing Instruments Issued in the CIBM and Deposited with CCDC in 2019

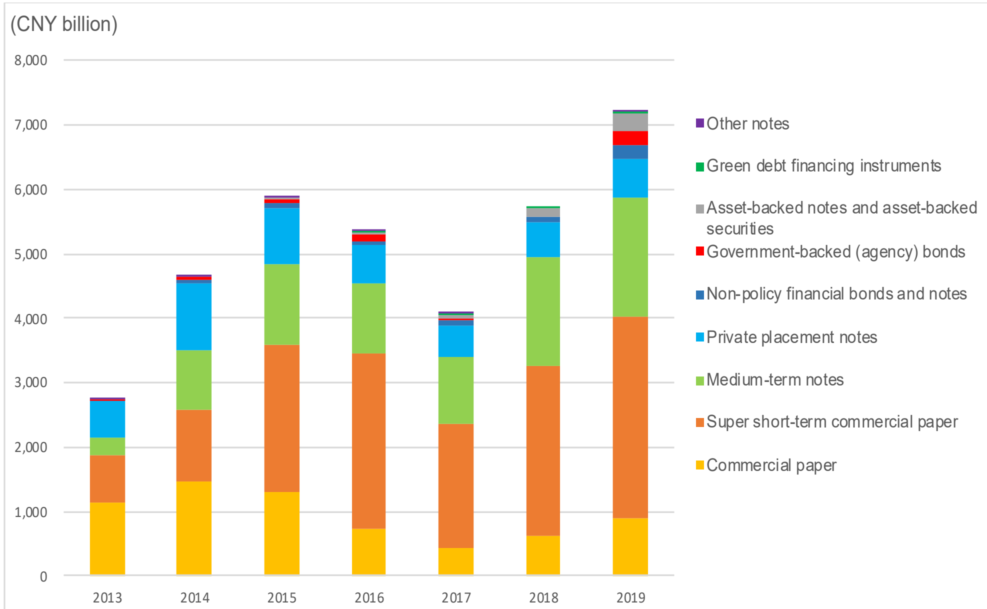
Instrument		2019 Total Issuance Amount (CNY billion)	Share
Public sector bonds (79.7%)	Government bonds	4,009.10	26.2%
	Local government bonds	4,362.43	28.5%
	Policy bank financial bonds	3,660.21	23.9%
	Government-backed (agency) bonds	165.00	1.1%
Private sector bonds (21.3%)	Commercial bank bonds and notes	432.95	2.8%
	Tier 1 and Tier 2 capital instruments	1,164.60	7.6%
	Financial bonds (by non-bank FI)	187.45	1.2%
	Commercial paper issued by securities companies	0.00	0.0%
	Enterprise bonds	360.92	2.4%
	Asset-backed securities	963.46	6.3%
	CCDC Total	**15,306.12**	**100.0%**

CCDC = China Central Depository & Clearing Co., Ltd; CIBM = China Inter-Bank Bond Market; CNY = Chinese renminbi; FI = financial institution.
Source: *CCDC, 2019/12* 统计月报: 2-01 债券发行量(按券种).

On the other hand, SHCH focuses more on private sector debt financing instruments such as MTN, PPN, commercial paper, SCP, and green debt financing instruments (from 2016 onward) (Figure 1.4).

SHCH also serves as the central depository for NCD traded in the CIBM, but in statistical classifications they are typically treated or shown separately from bonds and other debt financing instruments due to their banking product nature and short-term tenors. Please refer to Chapter III.C.4 for a description of the basic characteristics of the NCD traded in the CIBM.

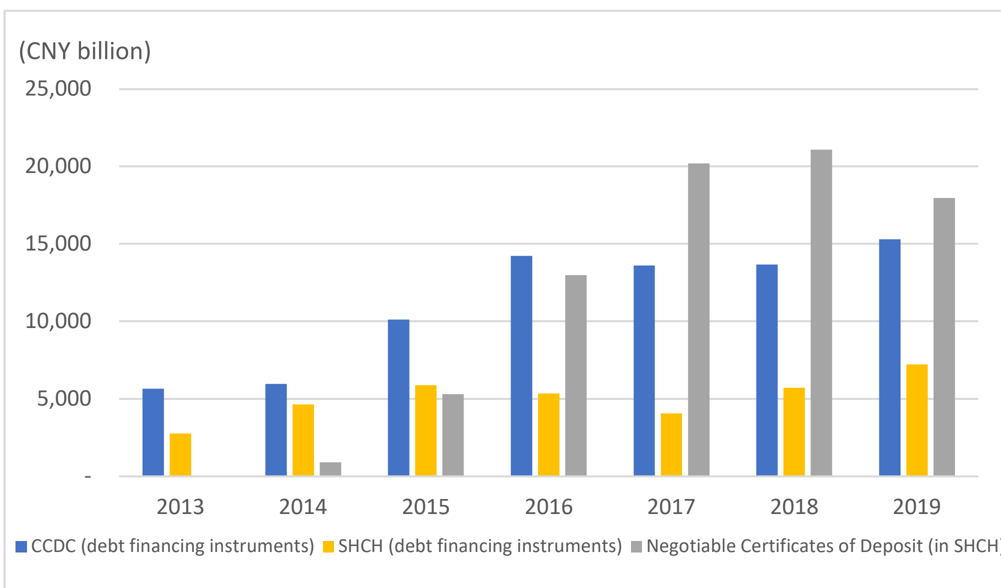
Figure 1.4: Debt Financing Instrument Issuance in the CIBM and Deposited with SHCH by Type



CIBM = China Inter-Bank Bond Market, CNY = Chinese renminbi, SHCH = Shanghai Clearing House.
Notes: Figure 1.4 does not include negotiable certificates of deposit. Other notes include project income notes (2014–2017), regional small and medium-sized enterprise collective notes (2013–2015), and standardized notes (2019).
Sources: *SHCH 2013–2019/12 Monthly Report* 统计月报 表二 上海清算所固定收益产品发行量.

To give an impression of the significance of the amount of NCD relative to other debt financing instruments in the CIBM, issuance amounts from 2013 to 2019 are shown in Figure 1.5.

Figure 1.5: Debt Financing Instrument and NCD Issuance in the CIBM



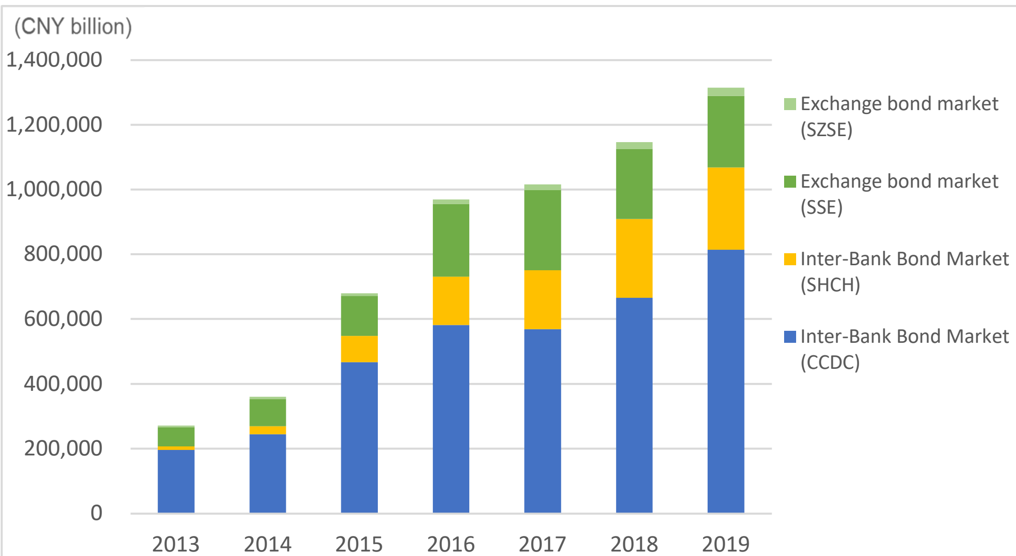
CCDC = China Central Depository & Clearing Co., Ltd; CIBM = China Inter-Bank Bond Market; CNY = Chinese renminbi; NCD = negotiable certificates of deposit; SHCH = Shanghai Clearing House.
Source: *CCDC Annual Review, 2013* (English). pp.13–14; *CCDC Bond Market Statistical Analysis Report, 2014–2017*; *CCDC Annual Report, 2016–2017*, *CCDC Bond Market Operation Analysis, 2017*; *CCDC 2018–2019/12* 统计月报: 2-01 债券发行量(按券种); *SHCH 2013–2019/12 Monthly Report* 统计月报 表二 上海清算所固定收益产品发行量.

A further breakdown of individual debt financing instrument types issued in the CIBM can be found in Chapter III.D.

2. Debt Financing Instrument Trading in the Inter-Bank Bond Market

Debt financing instruments and NCD issued in the CIBM are traded on the platform operated by CFETS (please see Chapter IV for more details). At the end of 2019, the total trading and transaction volume in the CIBM reached approximately CNY1,068 trillion and represented approximately 81.3% of the overall bond market trading and transaction volume (Figure 1.6).

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



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

3. Corporate Bonds and Enterprise Bonds

There are three types of nonfinancial corporate bonds in the PRC: (i) enterprise bonds (企业债), (ii) corporate bonds (公司债), and (iii) debt financing instruments of nonfinancial enterprises (非金融企业债务融资工具).

Originally, enterprise bonds (企业债) referred to the bonds issued by central government-related agencies, state-owned enterprises (SOEs), or state-owned holding companies affiliated with NDRC. NDRC is responsible for supervising the issuance of enterprise bonds. For historical reasons, enterprise bonds have always been supervised by NDRC, being a government agency overseeing SOE reform. With the progress of privatization, the delineation between corporate bonds and enterprise bonds has become less strict. In general terms, enterprise bonds are included in corporate bonds and often called corporate bonds.

Enterprise bonds are mainly issued by nonlisted SOEs or government-backed entities and are issued in the CIBM or the exchange bond market, or in both markets. Most enterprise bonds are fungible between the CIBM and exchange bond market. On the other hand, corporate bonds are issued in the exchange bond market and listed on the exchange(s).

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

Please also see Chapter III.B for a description of the types of bonds and notes issued in the CIBM.

4. Formation of the Private Placement to Designated or Specialized Institutional Investors Concept

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) (2011, No. 6). With these rules, NAFMII introduced new concepts in private placement: “private placement (定向发行)” and “designated institutional investor (特定机构投资人)” or, in short, “private placement investor (定向投资人).”

These concepts are similar to (i) the placement to Qualified Investors (向合格投资者非公开发行), and (ii) the concept of Qualified Institutional Investors (合格投资者中的机构投资者) in the exchange bond market.

The 2011 Rules stipulated that the term “private placement (定向发行)” refers to the issuance of debt financing instruments by nonfinancial enterprises with legal qualifications (i.e., enterprises) to “designated institutional investors (特定机构投资人)” who are designated by the issuer and the lead underwriter in the CIBM, also referred to as “private placement investors (定向投资人),” and includes the transfer of such debt financing instruments within the scope of designated institutional investors (DIIs) only.

The term private placement investors stems from the practice that an issuer and its appointed underwriter had to specifically identify (i.e., target), upon every issuance, a list of institutional investors to which the debt financing instruments could be issued. Hence, debt financing instruments issued via a private placement (非公开定向发行方式发行的债务融资工具) are also known as “nonpublicly placed debt financing instruments (非公开定向债务融资工具),” or simply “private placement instruments (定向工具).”

Private placement investors who invest in private placement instruments should issue a written confirmation letter to NAFMII confirming that they are aware of the investment risk of the private placement instruments, have the ability and willingness to assume the investment risk of the private placement instruments, voluntarily accept the management of investors in the CIBM by NAFMII, and fulfill membership obligations.

In addition to the abovementioned method of designating institutional investors, on 26 November 2015, to standardize the selection procedure of private placement investors (定向投资人), NAFMII subsequently issued 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) and 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), including a formal definition of “specialized institutional investors (专项机构投资人)” to be selected by NAFMII. At the same time, NAFMII named 120 specialized institutional investors (SIIs) on the List of Specialized Institutional Investors of Private Placement

Notes (定向债务融资工具专项机构投资人名单). Being on this positive list, SIIs need not acknowledge their risk awareness and acceptance of market membership rules to NAFMII for every issuance of a debt financing instrument they are interested to buy. By October 2019, this positive list contained about 180 investors.

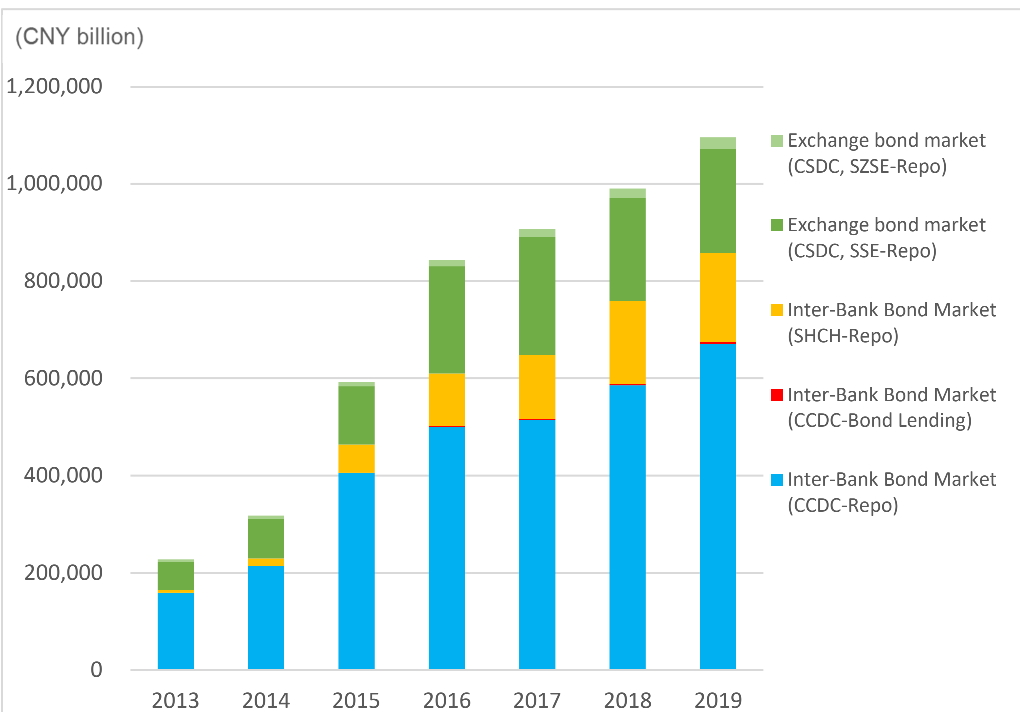
As a result, an issuer may choose to offer its debt financing instruments in the CIBM through a private placement to either institutional investors selected by NAFMII or institutional investors who are designated by the issuer and the lead underwriter. The abovementioned concepts also made possible the private placement of Panda bonds to designated or SIIs.

In April 2020, NAFMII announced the latest revisions to its rules on private placements. While there were no changes to the investor concepts mentioned above, the latest rules focused on the streamlining of the registration process and more efficient disclosure practices and introduced a further categorization of issuer types with distinct disclosure obligations for each category. The new rules became effective on 1 July 2020.

5. Repos and Bond Lending Transactions in the Inter-Bank Bond Market

Repo transactions play a significant role in trading in the CIBM. In 2019, repo transactions in the CIBM represented 78.2% of the total market repo volume in the PRC. Due to the intraday repo practices in the market, repo transaction volumes appear as very large numbers (Figure 1.7).

Figure 1.7: Repo and Bond Lending Transaction Volume by Major Bond Market Segment



CCDC = China Central Depository & Clearing Co., Ltd; CIBM = China Inter-Bank Bond Market; CNY = Chinese renminbi; CSDC = China Securities Depository & Clearing Co., Ltd; SHCH = Shanghai Clearing House; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange.
Note: Bond lending only applies to CIBM.
Source: *CCDC Bond Market Statistical Analysis Report, 2013–2017*; *SSE Fact Book 2016, 2017* (data for 2015, 2016); SSE website (data for 2013, 2014, 2017); *SZSE Fact Book, 2013–2017*.

Repo transactions in the CIBM are supervised by the PBOC, while the participants are subject to NAFMII membership and applicable regulations, as well as CFETS trading rules. Please see Chapter IV.G for a comprehensive description of the repo market in the CIBM.

In addition, securities borrowing and lending transactions, which in market practice are referred to as bond lending, may only be carried out in the CIBM. For details on bond lending practices, please refer to Chapter IV.H.

C. Outline of the Investment Schemes to Open the Capital Market

Since the PRC's accession to the World Trade Organization in 2001, the Government of the PRC has established various concepts for the opening of the domestic bond and capital markets in line with the needs of foreign investors and potential issuers.

Specifically, investors may invest in the PRC's bond market, which is commonly referred to as the "China bond market," through any one of five concepts for which they may be eligible (in their order of introduction): (i) Qualified Foreign Institutional Investor (QFII), (ii) the Pilot Scheme for Three Types of Institutions (三类机构), (iii) Renminbi Qualified Foreign Institutional Investor (RQFII), (iv) the CIBM Direct Scheme, and (v) Bond Connect. In this context, QFII and RQFII are often mentioned together due to their similar eligibility criteria, approval process, and origins in the exchange market.

Please see Table 1.3 for a brief summary of each concept's features. Chapter III.M contains a full description of the features of each of the market access concepts available for investors in the CIBM.

The individual concepts introduced by the government served specific purposes in line with the various stages of development of the bond market. While at its inception in 2002 as the first foreign access method to the PRC capital market, QFII focused on the exchange market and favored equities, other initiatives were established as part of the national policy of the internationalization of the Chinese renminbi—such as the Pilot Scheme for Three Types of Institutions and RQFII—to provide means of effective use of offshore Chinese renminbi (ISO code: CNH) that accumulated outside of the PRC. In the earlier concepts, it had still been necessary for each foreign institutional investor to be approved by the competent authorities and to observe a quota.

The availability of foreign investment access methods was followed by opportunities for nonresident issuers as well as by introducing the issuance of Panda bonds. From 2015, in particular, further policy and regulatory measures to open the China bond market—as part of the broader liberalization of the capital market—have shifted from a framework with inherent limitations to a framework with a focus on enabling investment at the discretion of foreign investors. From February 2016, nonresident financial institutions were able to invest in the CIBM with only a notification to the PBOC. CIBM Direct, as it is now known, has emerged as a highly flexible framework without a need for approval, an investment limit, or repatriation restrictions. The most recent measure, Bond Connect, introduced in July 2017, takes a further step toward the opening of the domestic bond market in the PRC, allowing nonresident investors with established accounts in Hong Kong, China to access the CIBM with a streamlined approval and onboarding process.

Table 1.3: Overview of Market Access Routes into the China Bond Market

Item	QFII	Pilot Scheme for Three Types of Institutions	RQFII	CIBM Direct	Bond Connect (Northbound)
Market	• Exchange Market • CIBM	CIBM	• Exchange Market • CIBM	CIBM	CIBM
Commenced	• 2002 • 2011	2010	2011	2016	2017
Currency	FCY	CNY (CNH)	CNY (CNH)	CNY (CNH), FCY	CNY (CNH)
Approving Authorities	• CSRC, SAFE • CSRC, SAFE, PBOC	PBOC	• CSRC, SAFE • CSRC, SAFE, PBOC	PBOC, SAFE	PBOC
Original Scheme	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota of Chinese renminbi raised in the PRC in exchange for foreign currency to be remitted inbound	Allowed three specific types of institutions to participate in the CIBM: (i) foreign central banks or monetary authorities, (ii) CNH settlement banks in Hong Kong, China and Macao, China; and (iii) cross-border CNH settlement participating banks in Hong Kong, China and Macao, China	Allowed foreign institutional investors who meet certain qualifications to invest in equities and bonds in domestic markets within an approved quota allocated to eligible jurisdictions through Chinese renminbi raised outside of the PRC	Allowed foreign investors (QOII) to access the CIBM upon registration with the PBOC Allowed foreign institutions to trade bonds directly through banks holding a Type A license	Allowed CMU account holders (including foreign investors) to access CIBM via HKMA-CMU links to CCDC and SHCH No quota requirement or need for investors to identify the intended investment amount Registration with the PBOC
Original Restrictions	An investment quota (USD) is applied as well as regulations on remittance of principal injection period, asset allocation, and repatriation, including a lock-up period and outward remittance.	Limitations are placed on participating institutions; investment limit remained within the range of CNH holdings of each institution.	An investment quota (CNY) by country and region is applied and allocated among entities; other original restrictions were the same as for QFII.	Investors must invest (within a 9-month period) at least 50% of the investment amount mentioned in their filing form.	Each institution is required to submit an application to the PBOC and CFETS via BCCL, a joint venture of HKEX and CFETS.
Size of the Scheme	Final total quota available was USD300 billion (as of January 2019). Final quota allocated to 311 approved QFIIs was USD111.04 billion (as of August 2019). The quota concept was abolished by SAFE on 10 September 2019.	N.A.	Final total approved quota was CNY1,990 billion (as of September 2019). Total quota allocated to 243 entities in 20 approved jurisdictions was CNY691.6 billion (as of September 2019). The quota concept was abolished by SAFE on 10 September 2019.	The number of foreign investors via CIBM Direct was 1,087 (as of October 2019).	The number of foreign investors registered through Bond Connect was 1,533 (as of November 2019).

BCCL = Bond Connect Company Limited; CCDC = China Central Depository & Clearing Co., Ltd.; CFETS = China Foreign Exchange Trading System; CIBM = China Inter-Bank Bond Market; CNH = offshore Chinese renminbi; CMU = Central Moneymarkets Unit; CNY = Chinese renminbi; CSRC = China Securities Regulatory Commission; FCY = foreign currency; HKEX = Hong Kong Exchanges Limited; HKMA = Hong Kong Monetary Authority; N.A. = not applicable; PBOC = People's Bank of China; QFII = Qualified Foreign Institutional Investor; QOII = Qualified Overseas Institutional Investor; RQFII = Renminbi Qualified Foreign Institutional Investor; SAFE = State Administration of Foreign Exchange; USD = United States dollar.

Sources: For data on the size of schemes, Bank of China, BNP Paribas, BNY Mellon, Bond Connect Company Limited, Clifford Chance, King & Wood Mallesons, K&L Gate, Linklaters, and Mizuho Securities; for data on QFII, SAFE and the Bank of New York Mellon; for data on RQFII, SAFE, the Bank of New York Mellon, and other publicly available sources; for data on CIBM Direct, China Foreign Exchange Trade System and the PBOC; for data on Bond Connect: BCCL.

D. Market Opening Milestones in the China Inter-Bank Bond Market since 2005

While the QFII system was introduced in 2002 and its pilot program officially launched in May 2003, bonds that could be invested via QFII were initially limited to listed bonds in the exchange bond market and not the bonds and notes issued and traded in the CIBM. It took until late 2011 before QFII were able to place investments in bonds issued and traded in the CIBM.

However, the initial opening of the CIBM to foreign investors and nonresident issuers began in 2005. This section aims to recall the important milestones in the opening of the CIBM to nonresident participants, including the more prominent developments related to QFII, RQFII, CIBM Direct, Bond Connect, as well as Panda bond issuance.

1. Initial Opening to Foreign Investors and Nonresident Issuers, 2005–2010

In February 2005, the PBOC, NDRC, and CSRC formulated the Interim Measures for the Administration of CNY-Denominated Bond Issuances by International Development Organizations (国际开发机构人民币债券发行管理暂行办法) (2005, No. 5), which laid the foundation and was the first regulation for what was to become the Panda bond issuance concept. In these interim measures, international development organizations refer to the multilateral, bilateral, and regional international development financial institutions that grant development loans and carry out investments.

In May 2005, with approval from the PBOC, the Pan-Asia Index Fund and China Bond Index Fund of the Asian Bond Fund II were given direct, if limited, access to the CIBM, thus becoming the first foreign entities approved to invest in debt financing instruments in the CIBM.

In August 2010, by issuing the Notice of the PBOC on Issues Concerning the Pilot Program on Investment in the Inter-Bank Bond Market with Renminbi Funds by Three Types of Institution Including Overseas RMB Clearing Banks (中国人民银行关于境外人民币清算行等三类机构运用人民币投资银行间债券市场试点有关事宜的通知) (2010, No. 217), the PBOC launched a pilot scheme allowing certain institutions to trade and settle bonds in the CIBM.[3] The three types of institution (三类机构) were (i) foreign central banks or monetary authorities; (ii) CNH settlement banks in Hong Kong, China, and Macau, China; and (iii) cross-border CNH settlement participating banks in Hong Kong, China and Macau, China. This pilot scheme represented the first CNY-denominated investment concept using offshore Chinese renminbi (CNH) as the source of funds. An investment limit was set as within the range of CNH holdings by each financial institution (i.e., institutions were allowed to use available CNH balances resulting from normal business activities).

In September 2010, to further standardize the behavior of international development institutions when issuing CNY-denominated bonds, the PBOC, MOF, NDRC, and CSRC jointly issued amendments to the earlier (Panda bond) regulations in the form of the Interim Measures for the Administration of CNY-Denominated Bond Issuances by International Development Institutions (国际开发机构人民币债券发行管理暂行办法) (2010, No. 10), which deregulated the outward remittance of Chinese renminbi proceeds from Panda bond issuance by such international development institutions.[4]

---

[3] See http://www.gov.cn/banshi/2010-08/18/content_1682328.htm.

[4] See http://www.fdi.gov.cn/1800000121_23_68477_0_7.html.

2. Liberalization of the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor Schemes, 2011–2013

The QFII scheme was introduced in 2002 to allow foreign investors direct access to the domestic securities market for the first time. However, the investment opportunities did not include instruments issued and traded in the CIBM; instead, the focus was on the exchange (bond) market.

On 16 December 2011, the RQFII scheme was introduced, which allowed the use of offshore renminbi (CNH) raised by the subsidiaries of Chinese domestic fund management companies and securities companies in Hong Kong, China to invest in the domestic securities market, including in the CIBM, for the first time. The underlying regulation was officially called Pilot Measures for Domestic Securities Investment by RQFIIs (Fund Management Companies and Securities Companies) (人民币合格境外机构投资者境内证券投资试点办法) (2011-12-16, CSRC Order No. 76). It was jointly issued by CSRC, the PBOC, and SAFE. Under the new pilot scheme, the PBOC allowed RQFII to access the CIBM, if limited to investments in cash bonds only, in addition to bonds in the exchange bond market under CSRC regulations similar to QFII. The RQFII scheme included CNY-denominated investment quotas for a country or region, which were to be granted by SAFE.

Hong Kong, China, being the test pilot region of the scheme, also referred to as the PBOC's pilot CIBM scheme, obtained the first such quota at CNY20 billion. In the first batch, 21 subsidiaries of Chinese fund management and securities companies based in Hong Kong, China were granted RQFII status and a quota to invest in the CIBM via a domestic bond settlement agent (see also Chapter III.M for a description of the function of a bond settlement agent).

In 2012, the PBOC pilot CIBM scheme was extended to insurance companies domiciled in Hong Kong, China; Singapore; and Taipei,China. From 2012 onward, QFII investment in bonds issued and traded in the CIBM was permitted in addition to the exchange bond market.

Effective 1 March 2013, the original RQFII pilot measures were replaced by the 2013 Pilot Measures for Domestic Securities Investment by RQFIIs (人民币合格境外机构投资者境内证券投资试点办法) (2013-03-01, CSRC Order No. 90), jointly released by CSRC, the PBOC, and SAFE, which expanded the scope of the scheme and relaxed earlier investment restrictions such as asset allocation percentages. Through the revised measures, QFIIs were permitted, subject to PBOC approval, to invest in the CIBM within an approved quota. Subsequently, all RQFIIs across jurisdictions were also allowed to invest in the CIBM, subject to PBOC approval.

To aid the implementation of the revised scheme, CSRC issued the Measures for the RQFII Pilot Program (Decree No. 90) on 6 March 2013, which regulated the securities investment activities of RQFIIs in the PRC. According to the measures, to make securities investments in the PRC, an RQFII needed to entrust a domestic commercial bank with asset custody and a domestic securities company with securities trading on behalf of the RQFII.

On 11 March 2013, SAFE released its Circular on Issues Concerning the Pilot Program of Investment in Domestic Securities by RQFII. On 2 May 2013, the PBOC announced the revised Circular on Issues Concerning the Implementation of Pilot Measures for RQFIIs, which revised the requirements on account opening, account management, and asset allocation for the RQFII scheme, and officially allowed all RQFII to access the CIBM.

3. Further Liberalization of the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor Schemes, 2016–2019

Since 2016, the QFII and RQFII schemes have evolved significantly in terms of market accessibility, asset allocation, and capital mobility.

On 5 September 2016, SAFE's RQFII rules were further relaxed regarding the quota application and controls, including simplifying the quota application process, easing inward and outward remittances, and shortening the original lockup period. On 23 September 2016, CSRC announced the removal of all asset allocation restrictions. Instead, QFIIs and RQFIIs were allowed to decide asset allocation at their discretion, other than allocating a substantial percentage of assets to cash and cash equivalent products.

At the 2018 Boao Forum for Asia in April 2018, President Xi Jinping announced a "new phase of opening" of the PRC's economy, including liberalizing the financial system and making the PRC more attractive for foreign investments. The following day, Yi Gang, Governor of the PBOC, outlined the implementation measures and timeline in greater detail. Following the speeches, regulators issued a series of implementing rules and policy statements.

On 12 June 2018, the PBOC issued the Regulations on Foreign Exchange Administration for Domestic Securities Investment by QFII and SAFE issued the Circular on the Administration for Domestic Securities Investment by RQFII to further ease restrictions on foreign institutional investors' access to the domestic financial market. Under the new regulations, the quarterly cap of 20% of total domestic assets that a QFII may remit out of the country was removed. A 3-month lockup period for redeeming investment principal was also removed for both QFIIs and RQFIIs. To facilitate the management of foreign exchange risks related to the securities investment of QFIIs and RQFIIs, investors were allowed to place foreign exchange hedges on their domestic investments.

At the end of July 2018, the total QFII investment quota granted to 287 license holders had reached USD100.46 billion. At the end of September 2018, the total RQFII investment quota had reached CNY1,940 billion, as granted across 20 countries and regions, and the actual investment amount used under the quota reached CNY640 billion across 203 entities.

In January 2019, SAFE doubled the investment quota available to QFII from USD150 billion to USD300 billion, and on 10 September 2019, SAFE announced that it had abolished the quota system for both the QFII and RQFII schemes to promote the further opening of the PRC's financial markets.

4. Introduction of the CIBM Direct Scheme, 2015–2018

In July 2015, the PBOC released a notice allowing foreign central banks or monetary authorities, sovereign wealth funds, and other international financial organizations (as well as RMB clearing banks in Hong Kong, China, and Macau, China) to directly invest in the CIBM without approval requirements and quota limits. Institutions in these categories were permitted to invest through an onshore bond settlement agent, subject to a filing with the PBOC. This marked a significant shift in the process of opening the PRC's capital market, making it much easier for international institutional investors to access the CIBM and paving the way for further liberalization of cross-border investments in the China bond market. The new scheme was called CIBM Direct and introduced the term "Qualified Overseas Institutional Investor," or QOII, to describe its constituents.

CIBM Direct was launched with the promulgation of PBOC Public Notice No. 3 on 17 February 2016, under which the definition of QOII was also widened to include additional foreign institutional participants, including commercial banks, insurance companies, securities firms, fund and asset management companies, as well as pension and endowment funds; the activities of QFIIs and RQFIIs in the CIBM have since been regulated under the designation QOII.

Further to the above notice, in May 2016, the PBOC Shanghai and SAFE published the Foreign Institutional Investor Rules, implementing the actual opening up of the CIBM. The implementing rules rolled out a “registration” approach to all types of foreign investors and removed quota limitations; foreign investors may remit Chinese renminbi or foreign currency for CIBM investments, and the foreign exchange may be made onshore or offshore, without an approval from SAFE. The bond settlement agent may also provide custodian services in the CIBM. New instruments were also made available for hedging purposes—such as bond lending, bond forwards, and forward rate agreements—subject to the completion of the prescribed legal documentation.

Under the CIBM Direct Scheme, QOIIs may also trade bonds directly through banks holding a Type A license, which is defined as a participant who can trade, settle, and provide custody for CIBM instruments both for themselves and on behalf of Type C investors, who must appoint a Type A investor for settlement to carry out bond trading on their behalf. Type B license holders may trade and settle in the CIBM for themselves only, or trade directly with others.

5. Further Easing of Panda Bond Regulations, 2014–2019

In March 2014, Daimler AG, the German carmaker and nonfinancial enterprise, issued the first corporate Panda bond in the CIBM, as PPN with a maturity of 1 year.

In September 2015, the PBOC eased restrictions on issuers of Panda bonds, permitting that proceeds raised from the issuance of Panda bonds could be used within or outside the PRC.

On 8 September 2018, 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) (PBOC and MOF Notice 2018, No.16) to further clarify the qualifications and registration procedures for foreign institutions to issue Panda bonds in the CIBM using two methods of issuance: (i) public offering and (ii) private placement to DIIs or SIIs, which are also known as private placement investors (see Chapter III.M for a description of these institutional investor types).[5] The interim measures laid out basic provisions on information disclosure, issuance registration, custody, and settlement, as well as Chinese renminbi account opening, foreign exchange, and investor protection.

On 17 January 2019, pursuant to these interim measures, NAFMII published the Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (for Trial Implementation) (境外非金融企业债务融资工具业务指引(试行)), which provided more detail on the registration for issuance process and information disclosure for Panda bonds.[6]

---

[5] For the Chinese version (PDF), see http://www.pbc.gov.cn/tiaofasi/144941/3581332/3730127/index.html. For the English version, see http://www.pbc.gov.cn/en/3688253/3689009/3788480/3789754/index.html.
[6] For the Chinese version, see http://nafmii.org.cn/ggtz/gg/201902/t20190201_75766.html. For the English version, see http://nafmii.org.cn//english/lawsandregulations/selfregulatory_e/201902/t20190201_75773.html.

6. Debut of Bond Connect, 2017–2018

The latest scheme to open the China bond market to be introduced, Bond Connect, is a new mutual market access scheme that will eventually allow investors from the PRC and overseas to trade in each other's bond markets through connections between the respective financial infrastructure institutions in the PRC and Hong Kong, China.

"Northbound Trading" commenced on 3 July 2017, allowing foreign investors from Hong Kong, China and other regions to invest in the CIBM through mutual access arrangements with respect to trading, custody, and settlement. Proposed "Southbound Trading," under which investors from the PRC can access the Hong Kong bond market, is not expected to be realized anytime soon.

In addition to the QFII and RQFII schemes, Bond Connect (债券通) provides a new avenue for foreign investors to access the China bond market, particularly the CIBM. The scope of eligible foreign investors under Bond Connect is the same as for the CIBM Direct scheme, being QOIIs. Please see Chapter X.A.4 for more details on Bond Connect.

To establish an interconnection mechanism between the domestic bond markets in the PRC and Hong Kong, China through Bond Connect, the PBOC issued the Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong SAR (内地与香港债券市场互联互通合作管理暂行办法) (中国人民銀行令 [2017] 第 1 号 / 同日施行) on 21 June 2017.

On 3 July 2017, the state-owned Agricultural Development Bank of China issued CNY16 billion worth of financial bonds in the CIBM, of which CNY1 billion was allocated to foreign investors through Bond Connect. On 26 July 2017, Hungary issued a CNY1 billion 3-year Panda bond in the CIBM, representing the first foreign sovereign CNY-denominated bond allocated to investors via book-building through Bond Connect. Since then, nonfinancial corporate debt financing instruments, Panda bonds, foreign sovereign government bonds denominated in Chinese renminbi, ABS, and other bonds have also been issued through Bond Connect. Since April 2019, even NCD have been issued to foreign investors via Bond Connect.