III

Exchange Bond Market Characteristics

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

A. Definition of Securities and Bonds

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

1. Definitions in the Securities Law and Company Law

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

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

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

2. Reference to Debt Securities in Rules of the Exchanges

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

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

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

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

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

4. Bonds versus Notes

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

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

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

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

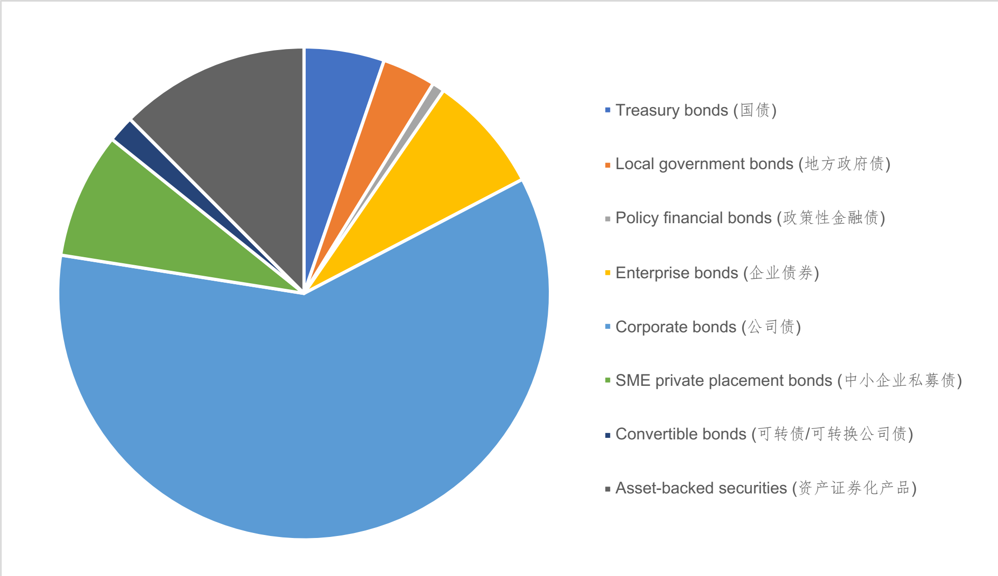
B. Types of Bonds

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

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

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

Figure 3.1: Magnitude of Issuance by Debt Securities Type



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

1. Treasury Bonds

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

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

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

2. Local Government Bonds

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

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

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

3. Policy Financial Bonds

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

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

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

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

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

4. Enterprise Bonds

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

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

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

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

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

5. Securities Companies' Short-Term Notes

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

6. Corporate Bonds

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

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

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

a. Corporate Bond Varieties

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

i. Convertible Bonds

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

ii. Exchangeable Bonds

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

iii. Equity Warrant Bonds (Detachable Convertible Bonds)

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

b. Typical Issuance Formats of Corporate Bonds

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

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

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

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

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

c. Issuance Qualifications for Corporate Bonds

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

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

d. Limitations for Reissuance of Corporate Bonds

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

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

7. Panda Bonds

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

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

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

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

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

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

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

8. Asset-Backed Securities

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

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

Other issued guidelines include the following:

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

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

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

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

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

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

a. Enterprise Asset-Backed Securities

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

b. Credit Asset-Backed Securities

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

C. Money Market Instruments

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

1. Repurchase Agreements

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

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

D. Segmentation of the Market

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

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

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

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

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

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

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

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

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

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

E. Methods of Issuing Bonds (Primary Market)

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

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

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

1. Issuance Types for Government Bonds

a. Issuance of Government Bonds

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

The MOF arranges the specific issuance plan of government bonds.

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

b. Issuance of Local Government Bonds

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

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

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

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

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

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

c. Issuance of Local Enterprise Bonds

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

2. Issuance Types for Corporate Bonds

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

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

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

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

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

3. Steps Taken by an Issuer before Issuance

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

a. Issuance of Corporate Bonds

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

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

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

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

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

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

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

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

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

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

b. Issuance of Enterprise Bonds

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

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

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

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

To issue enterprise bonds, an SOE must

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

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[39] The requirements for the public issuance of corporate bonds are stipulated in Article 16A of the Securities Law.

[40] The issuer has to release an updated bond prospectus at each issuance in a timely manner and report to CSRC within 5 working days from each issuance installment.

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

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

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

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

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

4. Public Offering

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

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

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

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

5. Non-Public (Private) Placement

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

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

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

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

6. Issuance via Underwriting

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

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

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

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

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

a. Underwriting Agreement

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

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

b. Underwriting Period

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

F. Governing Law and Jurisdiction (Bond Issuance)

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

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

G. Language of Documentation and Disclosure Items

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

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

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

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

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

H. Registration of Debt Securities in the Exchange Bond Market

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

1. Securities Registration and Depository System

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

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

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

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

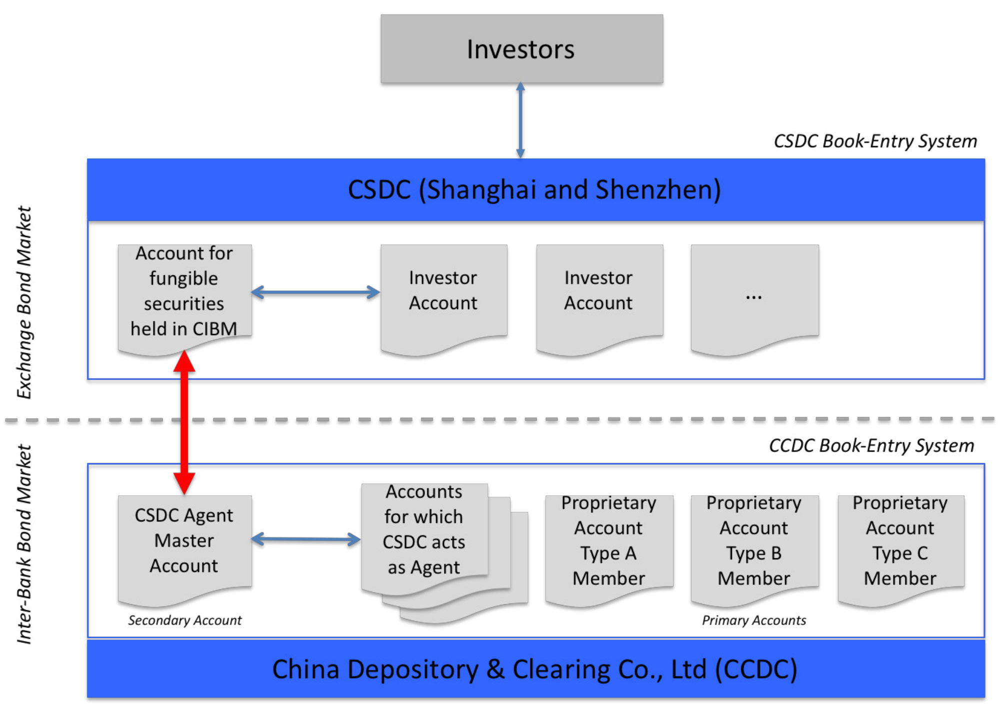
A domestic investor participating in trading activities on a stock exchange appoints a securities company as its custodian (pursuant to Article 34 of the Measures for the Administration of Securities Registration and Settlement) and may only participate in trading activities through a securities company.

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

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

2. Cross-Market Transfers

Figure 3.2: Account Linkage between CCDC and CSDC

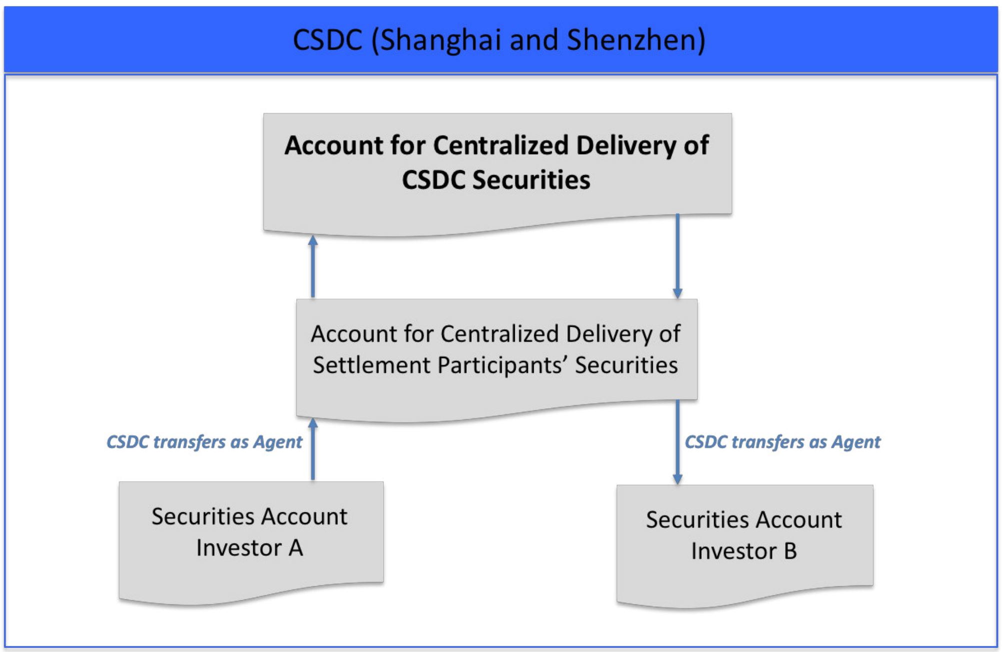


CIBM = China Inter-Bank Bond Market; CSDC = China Securities Depository and Clearing Co., Ltd.
Source: CCDC. 2016. *China Bond Market Overview 2016*. Beijing.

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

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

Figure 3.3: Bond Account System of the Exchange Bond Market



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

3. Securities Registration

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

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

4. Integrated Securities Registration and Listing Applications

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

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

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

I. Listing of Debt Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Listing Requirements

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

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

a. For Government Bonds and Local Government Bonds

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

b. For Enterprise Bonds

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

c. For Corporate Bonds

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

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

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

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

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

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

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

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

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

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

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

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

2. Listing Process for Corporate Bonds Issued via Public Offering

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

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

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

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

Step 1—Application for Listing to the Exchange

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

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

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

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

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

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

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

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

Step 2—Review and Listing Approval from the Exchange

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

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

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

Step 3—Issuance of Bonds

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

Step 4—Actual (Effective) Listing

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

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

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

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

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

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

Details are explained in the following steps.

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

Step 1—Application for Listing on the Exchange

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

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

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

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

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

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

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

Step 2—Review and Listing Approval from the Exchange

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

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

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

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

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

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

Step 3—Bond Issuance

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

Step 4—Actual (Effective) Listing

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

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

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

4. Listing Process for Asset-Backed Securities

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

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

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

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

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

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

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

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

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

Step 2—Review and Listing Approval from the Exchange

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

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

Step 3—Actual (Effective) Listing

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

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

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

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

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

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

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

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

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

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

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

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

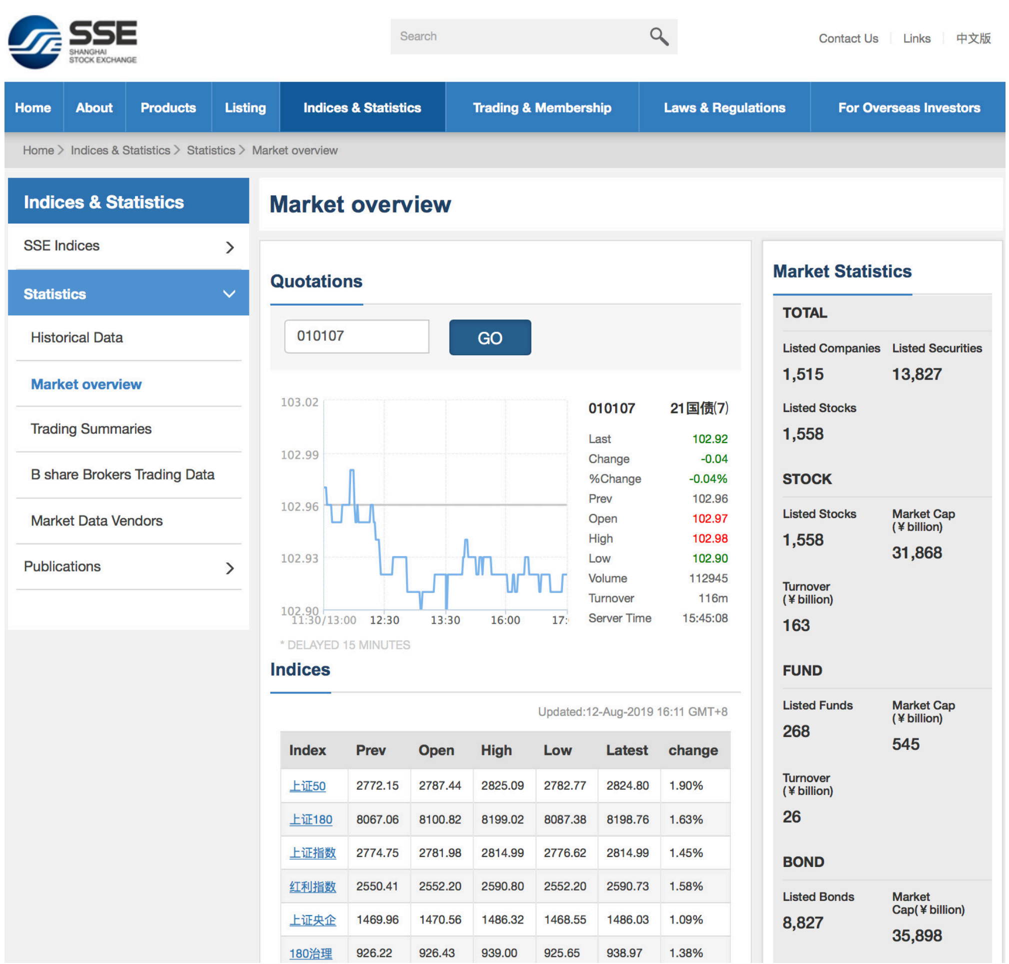
K. Bond Pricing

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

1. Shanghai Stock Exchange

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

Figure 3.4: Bond Quotations on the Shanghai Stock Exchange Website



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

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

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

2. Shenzhen Stock Exchange

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

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

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

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

3. China Securities Index Co., Ltd.

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

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

[52] For further information on level-1 and level-2 market data, please refer to http://english.sse.com.cn/products/information/realtime/.
[53] See www.ciis.com.hk.
[54] China Investment Information Services Ltd. Fee Schedule. http://www.ciis.com.hk/hongkong/en/uploadfiles/201809/11/20180911161317281161 23.pdf.
[55] See http://www.szse.cn/main/en/Products/DataProducts/.

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

L. Transfers of Interests in Bonds

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

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

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

1. Government Securities

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

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

2. Non-Trade Transfers

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

3. Custodian Point of View

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

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

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

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

4. Finality of Transfer

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

M. Market Participants

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

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

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

1. Issuers in the Exchange Bond Market

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

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

2. Investors in the Exchange Bond Market

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

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

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

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

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

3. Parties Involved in Debt Securities Issuance

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

a. Primary Dealers

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

b. Dealers and Securities Firms

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

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

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

c. Underwriters

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

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

d. Bond Trustee

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

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

e. Guarantor

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

f. Commercial Banks

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

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

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

h. Law Firms

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

i. Accounting Firms

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

j. Asset Appraisal Institution

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

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

N. Definition of Investor Types

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

1. Introduction of Qualified Institutional Investors

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

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

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

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

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

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

2. Qualified Investors or Professional Investors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

O. Credit Rating Requirements

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

1. Public Offerings

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

2. Public Offerings to Qualified Investors

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

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

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

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

3. Panda Bonds

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

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

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

4. Non-Public Offering (Private Placement)

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

P. Financial Guarantee Institution

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

Q. Market Features for Investor Protection

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

1. Securities Law

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

2. Regulatory Framework

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

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

3. Investor Education and Complaints

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

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

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

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

4. Investor Suitability Concept

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

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

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

5. Bond Trustee Concept

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

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

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

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

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

6. Investor Protection Fund

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

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

7. Deposit Insurance

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

8. Foreign Investors

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

R. Meeting of Bondholders

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

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

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

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

[61] China Securities Investor Protection Fund. *Annual Reports (various years)*. http://www.sipf.com.cn/NewEN/images/aboutsipf/annualandmonthly/2018/04/26/B978BBA94339155A0B2D56FFB1DD501B.pdf.

iv. the issuer becomes unable to perform payment obligation of the principal and interest in a timely manner;
v. major changes such as the issuer's capital reduction, merger, division, dissolution, custody, bankruptcy or bankruptcy proceedings;
vi. significant changes in the main body of credit enhancement, credit enhancement measures, or other debt repayment guarantee measures that have a material adverse impact on the interests of bondholders;
vii. the issuer or the bondholder who holds more than 10% of the total amount of the bond, individually or in total, proposes to the bond trustee in writing;
viii. the issuer's management cannot perform its duties normally, resulting in serious uncertainty about the issuer's ability to pay debts;
ix. the issuer may cause significant changes due to major debts or asset restructuring;
x. other meetings stipulated in the bond prospectus should be held at the meeting of bondholders; and
xi. other events that have a significant impact on the rights and interests of bondholders.

Among them, in the case of items iv., v., vi., viii., and ix. above, the bondholders meeting should decide whether to take countermeasures or not.

Pursuant to Article 4.3.3 of the SZSE Corporate Bond Listing Rules, if the issuer, or a bondholder who holds a total of more than 10% of the total amount of bonds in the current period, proposes to the bond trustee to convene a bondholders meeting, the bond trustee shall reply to the proposer in writing within 5 business days from the date of receipt of the written proposal and explain the reasons for either convening or not convening the meeting.

If the party agrees to convene a meeting, the bond trustee shall convene a meeting within 15 business days from the date of the written reply, unless the proponent agrees to postpone the meeting.

When the bond trustee does not agree to convene or should convene but does not convene a bondholder meeting, the issuer or the bondholder who holds more than 10% of the total amount of the bond, has the right to convene the bondholders meeting. The bond trustee shall provide necessary assistance for the bondholders meeting.

S. Bond Trustee

The PRC’s exchange bond market features a commissioned company system, referred to as the “bond trustee” concept, which is available only for the protection of bondholders of corporate bonds and enterprise bonds. For convertible bonds, the listed company shall specify the method of protecting the rights of the bondholders, the powers and procedures of the bondholders' meetings, and the conditions for resolutions from such meetings to take effect. The appointment of a bond trustee is mandatory for public offerings, while a bond trustee may be appointed for a non-public placement on a voluntary basis under CSRC regulations. At the same time, the SAC code of conduct and exchange guidelines require the appointment of a bond trustee for all corporate bonds.

The bond trustee shall act in the best interest of the bondholders and shall not have any conflict of interest with the bondholders. During the lifecycle of a bond or note, the bond trustee shall protect the rights and interests of the bondholders in accordance with the bond trustee agreement. The issuer shall state in the bond prospectus or other key disclosure document that investors' subscription for the bonds shall be deemed as their acceptance of the corporate bond trustee management agreement.

In case of a guaranteed bond, the institution that provides the guarantee for the issue shall not serve as the trustee for the bond.

1. SAC Guidelines Related to Bond Trustee

The SAC has issued a number of rules and guidelines for the code of conduct and the actual functions and obligations of a bond trustee.

a. Corporate Bonds Trustees Practice Code of Conduct

On 5 June 2015, the SAC issued the Notice on Issuing the Professional Code of Conduct for Corporate Bond Trustees, 2015 (公司债券受托管理人执业行为准则) to regulate the behavior of the bond trustee for corporate bonds and to protect the legitimate rights and interests of investors.[62]

Article 4 of this code stipulates that where a corporate bond is issued, the issuer shall appoint a bond trustee for the bondholders, and the bond trustee shall enter into a corporate bond trustee management agreement (公司债券受托管理协议) with the issuer.

Article 7 stipulates that the trustee shall be a member of the SAC. The following institutions can act as trustees:

i. the underwriting institution that helped issue the current corporate bonds, and
ii. other institutions recognized by CSRC.

An institution that provides a guarantee for a bond issuance shall not be the trustee of that bond issue. The issuer who sells its own-issued bonds by itself shall not be the trustee of such bond issue.

b. Guidelines on the Disposal of Corporate Bond Default Risk by the Trustee of Corporate Bonds

On 17 March 2017, the SAC issued the Corporate Bond Trustee's Guidelines to Dealing with Default Risks of Corporate Bonds (公司债券受托管理人处置公司债券违约风险指引) to protect the legitimate rights and interests of investors in accordance with the 2015 measures (公司债券发行与交易管理办法) and other relevant laws and regulations.[63]

The guidelines prescribe an emergency management mechanism, which stipulates that the trustee should formulate an emergency management system for the disposal of corporate bond default risk and clarify the relevant systems and work requirements. The disposition of the default risk is classified into the expected default disposition—when the issuer is expected to default—and disposition under a substantive breach of contract which stipulates the work that the trustee should carry out when the issuer commits a material breach of contract.

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[62] See http://www.sac.net.cn/flgz/zlgz/201506/t20150605_122744.html.
[63] See http://www.sac.net.cn/tzgg/201703/t20170317_130780.html.

Pursuant to the issuance of the guidelines, the corporate bond trustee should, as required, establish an emergency management system for the disposal of corporate bond default risk and strictly implement it.

2. Bond Trustee for a Public Offering

Pursuant to Articles 48–51 of the 2015 measures, the appointment of a bond trustee is mandatory for a public offering and the obligations of the trustee to service a corporate bond or enterprise bond are prescribed in the following manner:

i. monitoring the credit status of the issuer (and guarantor, if any);
ii. supervising the proper use of proceeds;
iii. investigating an issuer's solvency;
iv. supervise initial and continuous disclosure;
v. ensuring the issuer seeks a guarantee or applies for legally preserving property when a repayment of debt becomes highly unlikely;
vi. diligently negotiating with or litigating against the issuer on behalf of investors;
vii. ensuring proper collateral management;
viii. filing civil proceedings on behalf of all or part of the investors; and
ix. participating in the legal proceedings for reorganization or bankruptcy.

3. Bond Trustee for a Non-Public Placement

An issuer intending to issue a bond or note through a non-public (private) placement in the exchange bond market may appoint a bond trustee, if investors so desire. The appointment of a bond trustee for non-public offers is not mandatory under the Securities Law or CSRC regulations.

However, the SSE issued the Notice on the Issues Related to Strengthening the Risk Prevention and Control of Private Placement Bonds in Small and Medium-Sized Enterprises (关于加强中小企业私募债券风险防控工作相关事项的通知) on 7 January 2015, which requires the issuers of SME private placement bonds to also appoint a bond trustee.[64] This practice has since been expanded to cover all non-publicly placed corporate bonds listed on the SSE. Bond trustees need to be members of the SAC.

The bond trustee's obligations for the non-public placement of corporate bonds are based on what was agreed in the corporate bond trustee management agreement, and the conditions described in the bond prospectus or such other key disclosure document.

T. Bankruptcy and Insolvency Provisions

1. Bankruptcy Provisions

In the PRC, provisions on bankruptcy mainly consist of the prescriptions in the Enterprise Bankruptcy Law (中华人民共和国企业破产法), which came into effect on 1 June 2007; the Company Law; the Securities Law; the Commercial Bank Law; as well as other relevant laws and regulations.[65]

According to Article 7 (2) of the Enterprise Bankruptcy Law, a creditor shall be entitled to ask the debtor to declare bankruptcy. If a legal person that is an enterprise cannot repay due debts and its assets are insufficient to pay off all the debt or it apparently

[64] See http://www.sse.com.cn/lawandrules/sserules/trading/bond/c/c_20150912_3985913.shtml.
[65] Information in part adapted from http://en.wikipedia.org/wiki/Bankruptcy_in_the_People's_Republic_of_China.

lacks solvency, it should resolve its debt in accordance with the prescriptions in the Enterprise Bankruptcy Law.

In addition to the provisions of the Enterprise Bankruptcy Law, other relevant provisions exist for, specifically, cases of bankruptcy or insolvency for financial institutions, mainly focused on debtor–creditor relationship.

After an enterprise is declared bankrupt in accordance with the Enterprise Bankruptcy Law, its collateral property does not belong to the estate, but will be used for the repayment of its secured debt, while any remaining amounts will be included in the estate.

2. Settlement of Assets under Bankruptcy or Insolvency Proceedings

Settlement using available assets from a debtor in bankruptcy or insolvency proceedings will occur in the following order:

i. expenses for bankruptcy proceedings include litigation cost involved in a bankruptcy case; expenses for management, realization and distribution of the debtor's assets; and expense involved in the administrator's performance of these duties and paid for his remuneration and expenses for the employees recruited;

ii. community debts include the debts generated when the bankruptcy custodian or debtor requests the opposite party concerned to perform a contract that is not fulfilled completely by both parties concerned; the debts generated from the custodial management of the debtor's assets; the debts generated from improper gains; the labor cost for the continuance of business operation, social insurance premiums, as well as other debts as incurred therefrom; the debts generated from the damage that occurs during the performance of functions and duties by a bankruptcy custodian or other relevant personnel; and the debts generated from any damage due to the debtor's assets;

iii. wages including subsidies for medical treatment and disability, and comfort and compensatory funds as owed by a debtor, the fundamental old-age insurance premiums, fundamental medical insurance premiums that shall have been transferred into the employees' personal accounts, as well as the compensation for the employees as prescribed by relevant laws and administrative regulations;

iv. social insurance premiums other than those as prescribed in the aforesaid provisions and tax fees as defaulted by the bankruptcy; and

v. common credits of bankruptcy in which the insolvent assets are not enough to meet the requirements for liquidation in a same sequence, it shall be distributed in accordance with their proportion.

After the global financial crisis and based on lessons learned from the risk of the bankruptcy of large financial institutions, the PRC is developing Financial Institution Bankruptcy Management Regulations, aiming to find a resolution to the problem of large financial institutions too big to fail.[66]

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

[66] ADB. 2012. *ABMF Phase 1 Report: ASEAN+3 Bond Market Guide*. Manila.

i. third-party guarantee,
ii. insurance,
iii. mortgage or pledge assets,
iv. limit the issuer's debt and external guarantees,
v. restrict foreign investment,
vi. limit the sale of mortgage or major assets to a third party, and
vii. other measures.

3. Other Reference Material on Bankruptcy and Insolvency

Further details on the restructuring and insolvency frameworks of Asia-Pacific economies can be found in *The Asia-Pacific Restructuring & Insolvency Guide* and *A Guide to Asia-Pacific Restructuring and Insolvency Procedures*.[67]

U. Event of Default and Cross-Default

The issuer has to stipulate in the prospectus or other such key disclosure document the circumstances that would lead to a default of the bonds; its liability for breach of contract and covenants; and the way in which potential litigation, arbitration, or other dispute resolution mechanisms are handled after a default of the corporate bonds has occurred. Usually, a default occurs at the end of the day.

While in many countries the declaration of a default remains at the determination of the bondholders, through the process of the bondholder meeting, the 2015 measures and the SSE and SZSE listing rules for corporate bonds do not stipulate that the event of default shall be declared by the bondholders meeting.

If the issuer commits an actual breach of contract or faces an expected default in the sense of the Contract Law, the parties to the bond's legal relationship may still directly claim the breach of contract or bear the liability for breach of contract without having to declare it.

In addition to the case of default on interest or principal by an issuer, an event of default can also occur by a participant in a depository. Such participant default refers to a default either in payment of any sum payable to CSDC or the default in delivery of securities to CSDC.

An event of participant-versus-investor default is either a client's default in any of the payment obligations due to the clearing participant or a client default in delivery obligations owed to the clearing participant. The clearing participant should recognize and declare an event of default, even if such default is not due to the clearing participant itself.

1. Covenants, Cross-Default, and Acceleration Clause

The use of a cross-default clause is increasingly being introduced in issuance documentation. An acceleration clause is also more likely to be included in issuance documentation. Banks can offset debts against assets of the same account holder, since such an offset of liabilities versus assets is permitted by law.

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[67] White & Case LLP. *Asia Pacific Restructuring & Insolvency Guide*.
https://www.whitecase.com/publications/alert/asia-pacific-restructuring-insolvency-guide;
Clifford Chance. 2018. *A Guide to Asia-Pacific Restructuring and Insolvency Procedures*.
https://onlineservices.cliffordchance.com/online/freeDownload.action?key=OBWIbFgNhLNomwBl%2B33QzdFhRQAhp8D%2BxrIGReI2crGqLnALtlyZe2l6bUKAO8L%2FFGIGwcvi3Hbp%0D%0A5mt12P8Wnx03DzsaBGwsIB3EVF8XihbSpJa3xHNE7tFeHpEbaeIf&attachmentsize=30182406.

2. Corporate Bond Default in the Exchange Market

The exchange market experienced its first domestic corporate bond outright default in March 2014. Since then, policy bodies, regulatory authorities, and SROs have amended and issued several measures and rules governing bond issuances in 2015 to bolster market development while better protecting investors.

On 17 March 2017, SAC issued the Corporate Bond Trustee Guidelines to Dealing with Default Risks of Corporate Bonds (公司债券受托管理人处置公司债券违约风险指引) to protect the legitimate rights and interests of investors in accordance with the 2015 measures and other relevant laws and regulations.[68]

The guidelines prescribe an emergency management mechanism, which stipulates that the bond trustee should formulate an emergency management system for the disposal of corporate bond default risk and clarify the relevant systems and work requirements. The disposition of the default risk is classified into expected default disposition—when the issuer is expected to default—and disposition under a substantive breach of contract, which stipulates the work that the bond trustee should carry out when the issuer commits a material breach of contract.

Pursuant to the issuance of the guidelines, the corporate bond trustee should, as required, establish an emergency management system for the disposal of corporate bond default risk and strictly implement it.

At the end of 2018, the SSE and SZSE listing rules for corporate bonds were revised to stipulate detailed descriptions regarding the protection of the rights and interests of bondholders, including (i) obligations and measures of debt repayment safeguards, and (ii) obligations and duties of the bond trustee.

For instance, when the issuer expects to not be able, or is no longer able to repay the debt (i.e., an event of default occurs or is likely), in accordance with the relevant provisions, contracts, or authorization of empowerment of the bondholders, the bond trustee shall diligently deal with matters related to the bond default risk and resolve related matters, including but not limited to negotiations with the issuer. The bond trustee shall also negotiate with the credit enhancement entity (if any) and other responsible entities. The bond trustee may require the issuer to provide additional collateral or security, and the bond trustee shall accept the entrustment of the bondholders to apply for property preservation measures in accordance with the law. Similarly, the bond trustee shall file any civil action, apply for arbitration, participate in the legal proceedings relating to a reorganization, restructuring, or bankruptcy, as the case may be.

[68] See http://www.sac.net.cn/tzgg/201703/t20170317_130780.html.