People's Republic of China
Bond Market Guide

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Acknowledgement

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I. Structure, Type, and Characteristics of the Bond Market

A. Breakdown and Segmentation of the Market

People's Republic of China bond market is composed of both exchange and Inter-bank Bond Markets. These two markets complement, interconnect with, and complete each other. Both are integral parts of the Chinese financial markets as a whole.

The Inter-bank Bond Market is an over-the-counter (OTC) wholesale market, where market positioning of institutional investors and one-to-one quote-driven trading take place. In contrast, the exchange bond market is a retail market, in which individual and small- and medium-size institutional investors carry out trading through concentrated matchmaking method. Qualified Foreign Institutional Investors (QFII) are presently only permitted to access the exchange market.

The types of bonds available in China's bond market have become increasingly diversified. The initial bond categories of Treasury bonds and corporate bonds have evolved into a wide range of bond varieties. These include policy bank bonds, central bank bills, general financial bonds, subordinated bonds of commercial banks, hybrid capital bonds, super and short-term commercial papers,commercial papers, medium-term notes (MTNs), credit asset securitization products, listed companies bonds, local government bonds, international development institution bonds, and small- and medium-size enterprise (SMEs) collective notes,and private placement notes. In addition, bond provisions have become more flexible; some innovative varieties, such as embedded options and a clause of advance redemption have emerged.

Moreover, bond trading instruments have witnessed an evolution from spot trading and repurchase trading to bond forwards, forward rate agreement, Renminbi interest rate swap, bond lending, credit risk mitigation agreement, and credit risk mitigation warrant, among many others. Financial bonds may also now be publically issued in the national Inter-bank Bond Market or to targeted investors.

At present, there is no well-defined concept of professional investors in China. Nevertheless, majority of investors in the Inter-bank Bond Market are professional investment institutions.

B. Methods of Issuing Bonds

In China's bond market, bonds can be issued in two ways: by tender through the issue system of the People's Bank of China (PBOC) and by book building. Currently, Treasury bonds and policy bank bonds are issued by tender through PBOC's issue system. Credit products, on the other hand, are issued mostly through book building in the central book-entry system. With the rapid development of credit bonds since 2009, the market can substantially accept bonds with a relatively high credit rating.

Non-financial enterprises can also issue bonds by public tender, provided that they satisfy the relevant provisions of the *Notice of the People's Bank of China (Financial Market Department) on the Relevant Matters Concerning the Issue of Bonds by Tender through the Issue System of the People's Bank of China (BSC[2010] No. 11)*.[1]

C. Credit Rating System

At present, there are eight major credit rating agencies in China's bond market. Two of these are Sino-foreign joint ventures; one is engaged in a technical cooperation with a foreign enterprise and the remaining five are domestic-funded agencies.

The PBOC serves as the main supervisory authority of the credit rating industry. As such, it is mainly responsible for drafting relevant rules and regulations governing the credit rating system (CRS), and drawing up development strategies and policies, among many others. The China Securities and Regulatory Commission (CSRC) supervises credit rating in the exchange bond market while the National Development and Reform Commission (NDRC) oversees the credit rating for enterprise bonds.

In November 2006, the PBOC released the *Specification for Credit Rating in the Credit Market and Inter-bank Bond Market*, which contained a unified definition for the classification, symbol, and meaning of the medium- and long-term, and short-term credit ratings in the Inter-bank Bond Market. Tables 1.1 and 1.2 show the credit rating ranks for medium- and long-term bonds, and short-term bonds in the Inter-bank Bond Market, respectively. The ranks of credit rating for medium- and long-term bonds are divided into nine levels in three classes, symbolically representing in AAA, AA, A, BBB, BB, B, CCC, CC and C. The credit rating ranks for short-term bonds in the Inter-bank Bond Market can be divided into six levels in four classes: A-1, A-2, A-3, B, C, and D. No slight adjustment can be made to each rank.

1 PBOC Financial Market Department. Notice of the People's Bank of China (Financial Market Department) on the Relevant Matters Concerning the Issue of Bonds by Tender through the Issue System of the People's Bank of China, BSC [2010] No.11.

Table 1.1 Credit Rating Ranks for Medium- and Long-Term Bonds in China's Inter-bank Bond Market

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

Note: Except for AAA, CCC, and the ones below CCC, "+" or "–" can be used for each rank to address a slight adjustment, representing slightly higher or lower grade than that of the corresponding rank.
Source: The People's Bank of China (PBOC). 2006, *Specification for Credit Rating in the Credit Market and Inter-bank Bond Market.* Beijing, China.

Table 1.2 Credit Rating Ranks for Short-Term Bonds in the Inter-bank Bond Market

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

Note: Slight adjustment to each rank is not allowed.
Source: The People's Bank of China (PBOC). 2006, *Specification for Credit Rating in the Credit Market and Inter-bank Bond Market*. Beijing, China.

D. Related Systems for Investor Protections (Trustee System)

The bond market in China has witnessed considerable improvement in the mechanism to protect investors' interests, as well as the enhancement of investor education. To foster the development of Inter-bank Bond Market, the PBOC established a set of market-restrictive and risk-sharing mechanisms, which specifies the obligation and responsibility of the various intermediate actors in China's bond market.[2] This is to ensure the proper sharing of risks among issuers, intermediates, and investors.

The NDRC, on the other hand, emphasizes protecting the investors' interests, encourages and guides issuers and underwriters to explore the effective methods to increase credit. On the basis of a selective bond issuance program, the NDRC also rationalizes the scale to reduce risk, and introduced the concepts for bondholders meeting, debt proxy system, and mortgage assets supervisor system. It likewise requests issuers to formulate a practical and feasible debt repayment plan and safeguard measures, and guarantee the source of debt repayment.

2 The intermediate actors in the China bond market include underwriters, accounting firms, law firms, credit rating agencies, as well as other intermediaries.

The CSRC, for its part, established the bonds classification management system, bond trustee system, and the bondholders meeting system. At the same time, it develops the listed corporate bond markets.

The National Association of Financial Market Institutional Investors (NAFMII) is vigorously promoting the investors' protection mechanism in the non-financial enterprise debt capital market. It formulated self-regulatory normative documents such as the self-regulatory rule on bondholder conference guidelines.[3] The NAFMII document sets the clear conditions of the need to organize a bondholder conference and how should an issuer organize such a conference.

E. Listing of Bonds and Medium-Term Notes

Listing of bonds means that the stock exchange acknowledges and accepts certain types of bonds to be traded on the stock exchange market.

1. Listing of Corporate Bonds and Enterprise Bonds

There are currently no unified rules for the listing of bonds in China. The rules the Shanghai Stock Exchange and Shenzhen Stock Exchange set down separately contain similar contents.[4] Both give clear provisions on listing conditions, application for listing, listing approval, information disclosure and sustaining obligations, as well as suspension of listing, resumption of listing, and terminating listing, among others.

2. Trading and Circulation of Medium-Term Notes

At present, medium-term notes (MTNs) are traded and circulated only in the OTC market, specifically the Inter-bank Bond Market, and are unavailable in the stock exchange market. According to Article 13 of the *Guidelines for Non-Financial Corporate Medium-Term Notes in the Inter-bank Bond Market*, MTNs can be circulated and transferred among institutional investors in the Inter-bank Bond Market on the working day following the registration date of claim and debt.

F. Legal and Regulatory Framework of the Bond Market

Laws and regulations governing the bond market can be classified into four layers: laws, statutes or market management rules, regulations and administrative measures, and normative issuances and self-regulatory rules.

1. Laws on the Bond Market

The fundamental layer of the bond market legal system regulates and ensures the effective operation of the market. Laws are formulated and approved mainly by the National People's Congress or its Standing Committee. The law of the People's Republic of China on the PBOC stipulates the responsibilities and functions of PBOC in supervising the interbank bond market. Laws formulated to standardize bond market entities include *Securities Laws of the People's Republic of China and Commercial*

3 NAFMII. 2010. *Rules for the Meetings of the Holders of Debt Financing Instruments of Non-financial Enterprises in the Inter-bank Bond Market*. Beijing. http://www.nafmii.org.cn/Info/354967

4 Shanghai Stock Exchange *Rules for Listing of Corporate Bonds (SZZZ [2009 No. 186)*; *Rules of Shenzhen Stock Exchange for Corporate Bond Listing (SZS [2009] No. 143.*

Bank Law of the People's Republic of China.[5] Laws on contract, negotiable Instruments and guarantee govern economic relations between market entities.

2. Statutes or Market Management Rules

Market management rules, which make up the second layer of the bond market legal framework, include the *Regulations on Corporation Debt Management (August 2, 1993) and the Interim Regulations on Administration of Futures Trading (May 17, 2002)*.

3. Regulations and Administrative Measures

The third layer of the bond market legal framework includes various regulations and administrative measures, formulated and issued mainly by regulatory departments of the financial markets. Such measures include *Interim Measures for the Administration of Derivative Product Transactions of Banking Financial Institutions (January 5, 2011); Measures for the Administration on Issuing Renminbi Bonds by International Development Institutions; and Measures for the Administration of Bond Transactions in the National Inter-Bank Bond Market (April 30, 2000); Measures for the Administration of the Issuance of Financial Bonds in the National Inter-bank Bond Market (April 22, 2005);Measures for the Administration of the Issuance of Subordinated Bonds by Commercial Banks (June 17, 2004); and Measures for the Administration of Short-term Financing Bonds (May 23, 2005)*.

4. Normative Issuances and Self-Regulatory Rules

The fourth layer is composed of normative documents and self-regulatory rules regarding specific market operation. These include *Rules for the Registration of Issuing Debt Financing Instrument in the Inter-Bank Bond Market by Non-Financial Enterprise and Self-regulatory Rules on Bond Trading in the Inter-Bank Bond Market*.

Table 1.3 Major Provisions of Various Laws on Bond Issuance

Category	Title of Governing Law
Treasury bonds	*Regulations on Treasury Bonds of the PBOC (Decree of the State Council [1992] No. 95)*
	Measures for the Examination and Approval of the Membership of the Government Bond Underwriting Syndicates (Order 39 of Ministry of Finance [MOF] of the People's Republic of China, the PBOC, and CSRC)
	Circular on Printing and Distributing the Rules for the Issuance of Book-Entry Treasury Bonds by Tender in 2011 (CK [2011] No. 4)
Financial bonds	*Administrative Rules for the Issuance of Financial Bonds in the National Inter-bank Bond Market (Order [2005] No. 1 of the PBOC),* (全国银行间债券市场金融债券发行管理办法, 2005年1号令)
	Administrative Procedures for the Issuance of Financial Bonds in the National Inter-bank Bond Market (Announcement [2009] No. 6 of the PBOC), （全国银行间金融债券发行管理操作规程，2009年6号公告）
	Measures for the Administration of the Issuance of Subordinated Bonds by Commercial Banks (Announcement [2004] No.4 of the PBOC and China Banking Regulatory Commission [CBRC]), （商业银行次级债券发行管理办法，2004年4号公告）
	Announcement on Relevant Matters Concerning the Issuance of Hybrid Capital Bonds by Commercial Bank *(Announcement [2006] No. 11 of the PBOC),* （关于混合资本债券发行有关问题的通知，2006年11号公告）
	Interim Measures for Administration of Issuing Renminbi Bonds by International Development Institutions (Announcement [2010] No.10 of the PBOC, MOF, NDRC, and CSRC)
	Interim Measures for the Administration of the Issuance of Renminbi Bonds in Hong Kong Special Administrative Region by Financial Institutions Within the Territory of China (Announcement [2007] No.12 of the PBOC and NDRC)

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5 *The Securities Law of the People's Republic of China* was promulgated on December 12, 1998 and revised on October 27, 2005. The *Commercial Bank Law of the People's Republic of China* was passed into law on May 5, 1995 and was revised also on October 27, 2005.

Table 1.3 continuation

Category	Title of Governing Law
Short-and super short-term commercial papers, MTNs'	*Measures for the Administration of Non-Financial Enterprise Debt Financing Instruments in the Inter-bank Bond Market (Order [2008] No. 1 of the PBOC)"*
	Auxiliary self-regulatory rules formulated by the NAFMII
Listed corporate bonds	Pilot Rules on the Issuance of Corporate Bonds (Order 49 of China Securities Regulatory Commission)
	Relevant rules issued by the stock exchanges: Shanghai Stock Exchange *Rules for Listing of Corporate Bonds (SZZZ [2009 No. 186); Rules of Shenzhen Stock Exchange for Corporate Bond Listing (SZS [2009] No. 143*
Enterprise bonds	Regulations on Administration of Enterprise Bonds
	Circular of NDRC on Promoting the Development of Enterprise Bonds Market and Simplifying the Matters Relating to the Approval for Insurance (FGCJ Document [2008] No.7)
	Interim Measures for the Administration of Central Enterprise Bonds
Non-financial enterprise issuing debt instruments by private placement	Self-regulatory Rules for Inter-bank Bond Market Non-financial Enterprise Debt Instrument on Private Placement[1]

[1] The document provides for the whole process involved in private placement instruments including issuance, registration, trading, and information disclosure, among others.
Source: Websites of relevant regulatory authorities in China.

G. Laws on Bonds Issuance

Administration of bond issuance in China's bond market is governed by several statutes, categorized into Treasury bonds, financial bonds, non-financial enterprise debt-financing instruments (including super short-and short-term commercial paper, MTNs, and private placement notes), listed corporate bonds, enterprise bonds, and non-financial enterprises issuing debt instrument by private placement. These are summarized in Table 1.2.

H. Self-Governing Rules of the Market

In September 2007, NAFMII was officially established as the entity mainly responsible for the self-regulatory management of the OTC market. With the tenets of "self regulation, innovation and service", NAFMII is conducting self-regulation over China's Inter-bank Bond Market under the supervision and guidance of the PBOC. Experience in most recent years proves that NAFMII plays an important role in facilitating market expansion, and in guiding and regulating both the primary and secondary markets.

Following the formation of NAFMII, a series of rules and guidelines regarding issuance and underwriting, information disclosure, credit rating and market transaction of debt-financing instruments were established in succession. Also, the full-process monitoring, subsequent monitoring, and emergency management and response mechanism for registration and issuance were correspondingly established and improved. Risk inspection and pressure tests on issued debt-financing instruments are regularly conducted. Dynamic monitoring on subsequent information disclosure, implementation of commitments after bond issuance, and site inspections to the issuer are also carried out in different levels to prevent market risk substantially.

With the self-regulatory system for the primary market in place, debt-financing instruments of non-financial enterprises underwent rapid expansion, and market management has become increasingly standardized. In 2010, NAFMII facilitated the issuance of debt-financing instruments of non-financial enterprises in local currency that reached ¥1.3 trillion, accounting for 76% of the total amount raised by non-financial enterprises through the bond market during the whole year.

Secondly, the self-regulatory management system for the secondary market was formulated and trading activities in OTC market became standardized. In order to promote innovations and standardized development of bond derivatives, the *Guidelines on Internal Risk Management of Financial Derivatives Transactions in the Inter-bank Bond Market* and the *Guidelines on Credit Risk Mitigation Tools Pilot Business Projects* were promulgated. The *Master Agreement on Trading Financial Derivative Instruments in the Inter-bank Bond Market of China* (also known as NAFMII Master Agreement), which provided a unified and standard text for the OTC financial derivatives market in China was published and popularized. A set of self-regulatory normative documents like *Working Guidelines for Market Makers of the Inter-bank Bond Market* and the *Self-Regulatory Rules and Code of Conduct for Personnel Relating to the Trading* were formulated to strengthen self-regulatory management of bond trading behavior of member institutions; to regulate the practicing behavior of related trader; to maintain the legitimate competitive order of the market; and to promote a sound and standardized development of the market.

I. Bankruptcy Procedures

According to Article 7 (2) of the *Law of the People's Republic of China on Enterprise Bankruptcy*, the creditor shall be entitled to ask the debtor to declare bankruptcy.

II. Primary and Secondary Market-Related Regulatory Frameworks

A. Provisions Regarding Bonds Issuance

When issuing bonds, different provisions apply to different types of bonds with respect to information disclosure and credit rating. The specific provisions are summarized in Table 2.1 below.

Table 2.1 Provisions Regarding Bonds Issuance

Item	Treasury Bonds	Financial Bonds	SCP, CP, MTN	Listed Corporate Bonds	Enterprise Bonds
Competent Authority	The State Council, MOF, PBOC	PBOC	PBOC	CSRC	NDRC
Approval Method		Verification and approval system （核准制）	Registration system （注册制）	Verification and approval system （核准制）	Verification and approval system （核准制）
Issuance Method		Issued once in full amount or in installments under specified quotas	Registered once and can be issued in installments	Approved once and issued in installments	Issued once subject to the approved size
Information Disclosure	N/A	Prospectus, issuance notes, financial report, and audit report, etc.	Prospectus, issuance notes, financial report, and audit report, etc.	Prospectus, issuance notes, financial report, and audit report, etc.	Prospectus, issuance notes, financial report, and audit report, etc.
Credit Rating	N/A	Corporate credit rating, debt credit rating, and follow-up credit rating	Corporate credit rating, debt credit rating, and follow-up credit rating	Corporate credit rating, debt credit rating, and follow-up credit rating	Corporate credit rating, debt credit rating, and follow-up credit rating
Size of Fund Raised	The issuance size for each year is determined by the State Council and announced by the MOF	The amount of long-term subordinated bonds issued by national commercial banks cannot exceed 20% of its core capital, and no more than 30% by other commercial banks	The accumulated balance cannot exceed 40% of the net assets of the company	The accumulated balance cannot exceed 40% of the net assets of the company	Satisfying the approved size by the State Council, and the accumulated balance cannot exceed 40% of the net assets of the company
Purpose of Funds Raised	Arrangements made by the State Council	No specific provisions	The funds raised shall be invested in conformity with national industry policy, and can be used for the production and operation activities of enterprises. The purpose of funds raised needs to be clearly disclosed in the issuance document.	The funds raised shall be invested in conformity with national industry policy, and filing with the China Securities Regulatory Commission	The funds raised shall be invested in conformity with national industry policy

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Table 2.1 continuation

Item	Treasury Bonds	Financial Bonds	SCP, CP, MTN	Listed Corporate Bonds	Enterprise Bonds
Determination of Issuing Rate	Tender issuance	Tender issuance or book building[a]	Tender Issuance or book building[b]	Determined through market inquiry by issuers and sponsors	Determined by the enterprise according to the actual market condition, but subject to the approval of the regulatory body
Bond Maturity	No restrictions	No restrictions	The maturity for SCP is no longer than 270 days, for CP no longer than 1 year, for MTN is usually no longer than 10 years.	No restrictions	No restrictions, normally long-term bonds with maturities longer than five years
Main Trading Places	Inter-bank Bond Market, exchange market, and counters in pilot commercial bank	Inter-bank Bond Market	Inter-bank Bond Market	Exchange market	Cross-market trading, but are mainly traded in the Inter-Bank Market
Registration and Settlement Institutions	CCDC and CSDCC	CCDC	CCDC/SHCH	CSDCC	CCDC and CSDCC

a Financial bonds can be issued by normal commercial banks by tender through the *Issue System of the People's Bank of China.*
b The issuing rates of SCP, CP, and MTN can also be determined through the *Issue System of the People's Bank of China.*
CCDC = China Central Depository and Clearing Corporation Limited; CP = commercial paper; CSDCC = China Securities Depository and Clearing Corporation Limited; CSRC = China Securities Regulatory Commission; MOF = Ministry of Finance; MTN = medium-term notes; NDRC = National Development and Reform Commission; PBOC = The People's Bank of China
Source: Zhong Lun Law Firm, Beijing Office.

B. Provisions Regarding Investors

1. General Rules and Regulations

According to the *Measures for the Administration of Bond Transactions in the National Inter-bank Bond Market* and related laws and regulations, financial institutions that intend to become a member of the inter-bank bond market shall put such intention on record with the PBOC. Financial institutions intending to become market makers shall make an application to the PBOC, as well. In addition, savings financial institutions may also apply for a role as settlement agent with the PBOC.

Non-financial institutional investors may entrust financial institutions that are qualified agencies for settlement in the inter-bank bond market to carry out bond trading on their behalf. Meanwhile, securities companies with asset management plans that want to engage in the securities asset management business in the Inter-bank Bond market shall have separate bond-trading accounts for each asset management plan. PBOC is responsible for regulating and supervising the OTC bond market. Under the guidance of PBOC, NAFMII has formulated a self-regulatory management system for the secondary market and self-regulatory normative to strengthen self-regulatory management of members when carrying out trading activities.[6]

In August 2010, the PBOC promulgated the *Circular on Matters Concerning Pilot Investment in the Inter-bank Bond Market with Renminbi by Three Types of Institutions Including Overseas Renminbi Participating Banks*. This allows foreign institutions to enter the inter-bank bond market on a pilot investment project and brings overseas institutional investors into the inter-bank bond market. The CSRC, for its part, formulated laws and regulations pertaining to the exchange bond market.

6 These normative documents include the *Working Guidelines for Market Makers of the Inter-bank Bond Market, Self-regulatory Rules for Bond Trading in the Inter-bank Bond Market, and the Rules for the Meetings of the Holders of Debt Financing Instruments of Non-financial Enterprises in the Inter-bank Bond Market.*

Another general governing law on investors is the *Securities Law of the People's Republic of China*. It states that any insider who has access to insider information, or has unlawfully obtained any insider information on securities trading, may not purchase or sell the securities of the relevant company. Such insiders also may not divulge such information, or advise any other person to purchase or sell such securities. Anyone is prohibited from manipulating the securities market in collusion or collaboration with others to manipulate the securities market. Furthermore, securities companies, as well as practitioners, are prohibited from committing any fraudulent act in the process of securities trading, which may harm the interests of their clients.

In accordance with the *Interim Measures for the Administration of Utilization of Insurance Funds* promulgated by China Insurance Regulatory Commission in July 2010, insurance group holding and insurance companies shall follow the required proportion when using insurance funds. The said requirement stipulates that the total book balance of a company investing in banks' demand deposits, government bonds, central bank bills, policy bank bonds, and money market funds shall be no less than 5% of the total assets of the company at the end of last quarter. Also, the total book balance investing in unsecured enterprise (corporate) bonds and debt financing instruments of non-financial enterprises shall be no more than 20% of the total assets at the end of last quarter.

2. Rules and Regulations on Dealers with Special Qualifications

According to rules and regulations such as the *Rules on Market Makers in the National Inter-bank Bond Market*, financial institutions can make applications to the PBOC should they want to commence business in bilateral quotation for bonds and thus become a market maker. Deals through market making can enjoy benefits such as lower trading and settlement costs. NAFMII, under the authorization of the PBOC, will evaluate the performance of a market maker.

The *Circular of the People's Bank of China on Issues Concern[ing] Application to Bond Settlement Agent Business* provides that savings financial institutions can make applications to the PBOC should they want to commence business as a bond settlement agent. Once the application has been approved, other market participants may entrust these companies to handle the opening and closing of bond custody accounts and settlements on their behalf.

C. Taxation Framework and Requirements

According to circulars issued by the State Administration of Taxation and the Ministry of Finance, the arrangements of business tax and income tax for both qualified domestic institutional investors (QDII) and qualified foreign institutional investors (QFII) are as follows:

Table 2.2 Tax Provisions for Qualified Domestic Institutional Investors and Qualified Foreign Institutional Investors

Income Type	Qualified Domestic Institutional Investors (QDII)				Qualified Foreign Institutional Investors (QFII)			
	Treasury Bond		Financial Bond and Corporate Bond		Treasury Bond		Financial Bond and Corporate Bond	
	Interest Income	Bid-Ask Spread	Interest Income	Bid-Ask Spread	Interest Income	Bid-ask Spread	Interest Income	Bid-Ask Spread
Business Tax	N/A	5%	N/A	5%	N/A	Tax-free	N/A	Tax-free
Income Tax	Tax-free	25%	25%	25%	10%	Tax-free	10%	Tax-free

Source: China Central Depository and Clearing, Co. Ltd.

D. Regulatory Reporting Requirements

1. Reporting of Bond Issuance Information

Pursuant to *Administrative Rules for the Issuance of Financial Bonds in the National Inter-Bank Bond Market,* issuers of financial bonds are obliged to disclose relevant information before bond issuance and within its duration. Information shall be disclosed through the websites Chinamoney.com.cn and Chinabond.com.cn.

When a major event that may affect an issuer's ability to fulfill its debt obligations occurs, the issuer shall, in the first instance, report to and make relevant disclosure in a way prescribed by the PBOC.

Before the retirement of financial bonds, issuers shall disclose through an annual report to investors before April 30 of each year. The report includes an account of the issuers' performance situation of the previous year, financial reports audited by certified public accountants, major lawsuits involved and other matters. Where a guarantor backs financial bonds, the issuers shall also disclose the guarantor's financial situation during the previous year in the annual report, along with the audited financial report, major lawsuits involved and other matters. Where the financial bonds are issued to targeted investors, the content and format of information disclosure shall be stipulated in the prospectus and the issuance instructions. The information shall be disclosed to investors of the financial bond.

According to *Measures for the Administration of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market and the Rules for Information Disclosure of Debt Financing Instruments of Non-Financial Enterprises in the Inter-Bank Bond Market,* an enterprise that issues debt financing instruments, shall disclose related information in the inter-Bank bond market. Information disclosure shall abide by the principles of honesty and credibility, and there shall be no falsified descriptions, misleading statements, or major omissions. Issuers of debt financing instruments of non-financial enterprises shall disclose information through the websites Chinamoney.com.cn and Chinabond.com.cn. Before the retirement of debt-financing instruments and for any major event that may affect the issuer's ability to fulfill its debt obligations, the issuer shall promptly make a disclosure to the market.

In accordance with the *Regulations on Administration of Enterprise Bonds* and the *Circular of National Development and Reform Commission on Pushing the Development of Enterprise Bonds Market and Simplifying the Matters Relating to the Approval for Insurance*, the application for a public issuance of enterprise bonds shall be truthful, accurate and complete. Any information that may have a major impact on investment decisions of investors shall be fully disclosed, and the issuers and all parties concerned shall bear corresponding liabilities.

According to the *Pilot Rules on the Issuance of Corporate Bonds*, issuers who apply for the issuance of listed corporate bonds shall ensure a truthful, accurate, complete and timely disclosure, or render relevant information. There shall be no falsified descriptions, misleading statements or major omissions.

2. Reporting of Bond Trading Information

According to the rules and regulations such as the *Measures for the Administration of Bond Transactions in the National Inter-Bank Bond Market and the Circular of the People's Bank of China on Issues Concerned in Application to Bond Settlement Agent Business,* market makers and settlement agencies shall regularly report business performance to the PBOC. Currently, there is no regulation that requires market makers and settlement agencies to furnish a copy of the report submitted to PBOC to intermediary platforms or self-regulatory bodies.

In addition, according to a requirement by PBOC, in the event that bonds are not traded through the trading system of CFETS, both parties should report the trade information for the record on that exact trading day. If one party or both parties of the transaction instruct a settlement agent for the trade settlement, then the settlement agent should report the trade information to CFETS.

E. Possible Challenges and Expected Changes of Regulatory Rules

In recent years, the development of China's bond market has made remarkable progress. However, some structural problems remain.

1. It is necessary for regulatory authorities to form a more active and sustainable strategy in building a benchmark interest rate.

This shall also improve the liquidity of the secondary market, facilitate the innovation process of hedging instruments for interest rate risk (such as futures and options), and make possible the implementation of a monetary policy through direct financing instruments.

2. Presently, the corporate credit fixed-income market is facing the challenge of establishing a sub-market that can bring in issuers with lower credit ratings such as small- and medium-size enterprises (SMEs), private enterprises that are excluded from the market, and enterprises that are relying on higher-cost bank loans, to access the fixed-income market to raise money.

Several innovations in relation to SMEs were launched recently, including SMEs' collective notes and the initiation and establishment of the China Bond Insurance Co. Ltd. These measures have achieved declared targets partially.

Companies with lower credit ratings planning to enter the market may face legal restrictions on risks stipulated by regulators. A more flexible approach would enable the creation of a segment of eligible investment-grade companies (such as BBB-, three levels below the ratings currently accepted by the market) to issue bonds.

Reform measures by both buy side and sell side are needed, along with innovations to attract appropriate investors.

3. Another challenge is providing better service for financing SMEs' needs.

The Shanghai Stock Exchange implements a multi-layer market system, which includes the main Board, SME Board, and the Growth Enterprise Market (GEM) Board. This can be deemed as a step forward in the correct direction.

The GEM Board, launched in 2009, has demonstrated an original and successful innovation with a bright future. It is envisioned to facilitate the financing needs of listed startups with great potential for future growth that originally raised money through private equity fund. The GEM board is expected to play a key role in the financial service chain by offering an exit channel for private placement.

The establishment of a smooth transmission channel between private equity funds and public offerings is very important from two aspects: 1) offer a sustainable financing channel for SMEs, and 2) increase the proportion of private enterprises in the stock exchange.

III. Trading of Bonds and Trading Market Infrastructure

A. Trading of Bonds

1. OTC Trading of Bonds

China's bond market is constituted of the Inter-bank Bond Market and the exchange market. The Inter-bank Bond Market is an OTC market, and accounts for about 94% of outstanding bond value, as well as 99% of bond trading volume. It was established in 1997 and has recorded an average annual growth rate of over 50% since 2005.

The main traded instruments in the Inter-bank Bond Market include cash bond, collateral repo, outright repo, bond lending, and bond forward.

Table 3.1 Trading Volume in the Inter-bank Bond Market (¥ billion)

Year	Cash Bond	Collateral Repo	Outright Repo	Bond Forward	Total
1997	0.97	–	–	–	0.97
1998	3.32	–	–	–	3.32
1999	7.74	–	–	–	7.74
2000	68.24	1,578.17	–	–	1,646.41
2001	83.93	4,013.33	–	–	4,097.26
2002	441.17	10,188.52	–	–	10,629.69
2003	3,084.84	11,720.34	–	–	14,805.18
2004	2,504.11	9,310.49	126.27	–	11,940.87
2005	6,013.31	15,678.43	222.28	18.10	21,932.12
2006	10,256.39	26,302.06	289.21	66.39	36,914.05
2007	15,604.34	44,067.23	725.26	251.48	60,648.31
2008	37,115.76	56,382.95	1,737.57	500.27	95,736.55
2009	47,269.94	67,700.73	2,589.13	655.64	118,215.44
2010	64,043.25	84,653.35	2,940.21	318.34	151,955.15

Source: China Foreign Exchange Trade System (CFETS).

The main products in the inter-bank Bond market include government bonds, central bank papers, policy bank bonds, short-term papers, MTNs, corporate bonds, financial bonds, local government bonds, collective notes, international development institutions bonds, subordinated bonds, hybrid capital bonds, asset-backed securities, and super short-term commercial paper. Currently, policy bank bonds, central bank paper, MTNs and treasury bonds are the four most actively traded bonds in the inter-bank bond market.

At present, the Inter-bank Bond Market has over 10,000 members, covering all types of financial institutions such as commercial banks, securities companies, insurance companies, and various kinds of investment vehicles like mutual funds and pension funds. Among these, commercial banks are the most active participants.

The inter-bank Bond Market facilitates two trading modes: bilateral negotiation and click-and-deal. The OTC bond market officially introduced the market-maker mechanism in 2001 to improve market liquidity and enhance efficiency. Currently, 25 market makers provide bid-offer quotation for underlying bonds that cover nearly all types and terms, and three of the 25 market makers are subsidiary companies of foreign banks. Another major market policy, named the settlement agency mechanism, allows non-financial companies to invest in the inter-bank Bond market through settlement agent banks. As of December 2011, there are 46 settlement agents in the inter-bank bond market. The two mechanisms constitute the major Inter-bank Bond market structure and play an effective role in market growth and risk management.

2. Bond Repurchase Market

Bond repo has two sub-types: collateral repo and outright repo. The major difference between the two is that the latter involves transfer of bond ownership during the repo period while there is no transfer of ownership in collateral repo. In China's OTC market, collateral repo accounts for over 97% of total repo market in terms of trading volume. The terms of collateral repo transactions range from 1 day to 1 year, and are divided into 11-period categories, including 1-day (overnight) repo, 7-day repo (2–7days), 14-day repo (8-14days), etc. The terms of outright repo range from 1 day to 91 days. The most actively traded repos are in the 1-day and 7-day categories, which account for over 90% of repo transactions. Market participants vary from commercial banks, other financial institutions, to non-financial firms and non-institutional investment products.

The China Foreign Exchange Trade System (CFETs) composes the Fixing Repo Rate based on 1-day,7-day and 14-day collateral repos. The Fixing Repo Rate is now one of the key benchmarks for the financial market in China, and also widely used in the derivatives market.

3. Proprietary Trading Systems

CFETS, also known as the National Inter-bank Funding Center, is the unified trading platform for the inter-bank Bond market in China. CFETS has been operating the inter-bank bond market trading platform since 1997, and is now developed into a unique OTC electronic bond-trading platform in China with comprehensive functions of trade, post-trading service, risk management, and information service. It is a concentrated platform which contains all instruments in the bond market including cash-bond trading, bond repo, bond forward, and other OTC instruments like inter-bank offering, and derivatives like interest rate swap, forward rate agreement, and credit risk mitigation warranties.

Under CFETS' system, negotiation is applied to all inter-bank products while one-click trading（点击成交）is only applied to cash-bond and interest rate derivatives. CFETS has set up an interface for members to transfer data from CFETS to their internal system. The straight-through processing between CFETS and depositories (CCDC and Shanghai Clearing House) has also been set up, through which transaction data is transferred to the settlement system automatically.

CFETS also provides market information like quotes and prices on a real-time basis. As for post-trading management, the trading system contains specific modules for post-trade supervision and risk management.

4. Secondary Market Yields and Terms of Bond Issues

Both CCDC and CFETS compose yield curves for the Inter-bank Bond Market. CFETS composes real-time and end-of-day yield curves on six types of bonds. The real-time yield curves are the only real-time benchmarks in China's Inter-bank Bond Market. Every trading day the first curve is published at 9:30 a.m., and the curve is updated hourly until the system closes. The curves are based on benchmark bonds.

Compiled by CCDC since 1999, the Chinabond Yield Curves have been applied widely, serving the aims of market supervision, as well as pricing benchmark, internal control of financial institutions, and performance evaluation of banks, funds, insurance companies, other market participants.

5. Transparency in Bond Pricing

a. To enhance transparency in the bond market, especially in the OTC market, both CFETS and CCDC provide various information services.
b. CFETS discloses market information, particularly pricing-related statistics via the trading system on a real-time basis, to provide market members with a thorough and prompt market description. Summarized information is also disclosed on the website www.chinamoney.com.cn.
c. The CCDC also publishes extensive bond market information, including issuances, registration, listing, income payment as well as settlement quotation and OTC bilateral prices, through the website www.chinabond.com.cn, established by CCDC in 1998.
d. CFETS and CCDC also undertake the responsibility of market supervision to monitor abnormal transactions, which further improve market transparency in the OTC bond market.

IV. Impediments/Restrictions for the Realization of a Cross-Border Inter-Regional Market

A. Issues Concerning Accounting Standards

First, amendments to relevant items of the Accounting Standards for Enterprises are still in process. In 2005, the Ministry of Finance (MOF) of China made concentrated efforts to formulate and complete the system of accounting standards for enterprises by drawing on comprehensive accounting reform experiences over the past years. During that period, the International Accounting Standards Board (IASB) sent experts to China and worked with the Accounting Department of the MOF.

On 8 November 2005, China Accounting Standards Committee concluded a joint statement with IASB, stating that the system of Accounting Standards for Enterprises formulated by China converged with the international financial reporting standards. Subsequently, the MOF will continue its efforts in working towards the convergence between Chinese Accounting Standards for Enterprises and international financial reporting standards. The MOF is also in the process of completing all amendments to the Chinese Accounting Standards for Enterprises before the end of 2011.

Secondly, the accounting treatment regarding specific bond trading operations is still ambiguous. For example, present provisions do not provide clarity on whether outright repos shall be treated as accommodation or spot bond trades; these two methods differ greatly from an accounting perspective. If an outright repo is treated as accommodation, the bond is still available in the debt accounts in spite of being excluded from the self-operated securities of the reverse repurchaser; the self-operated securities can become negative once the reverse repurchaser sells the repurchased bonds, which shall be a challenge for the accounting system in the country. In case outright repo is considered as spot bond trades, a potential loss during the tenure of the repo shall need to be booked as a realised loss at the time of the far leg.

B. Issues Concerning Information Disclosure and Investors' Protection

At present, there are differences between domestic and overseas rules on information disclosure, different specific requirements on disclosure documents within the duration of a bond, and different provisions on the language of the rules. As such, under the current framework of rules on information disclosure for existing debt-financing instruments, the introduction of overseas issuers may pose the risk of being unable to provide required information for disclosure within the duration of the bond.

By taking into account possible situations that may emerge after the creation of a cross-border bond market, the establishment and improvement of relevant mechanisms for investors' protection is extremely important. At present, the domestic bond market has introduced international mechanisms for investors' protection such as the bond agents and bondholders meeting system as stipulated in Article 7 of the *Guidelines for Non-Financial Enterprise Medium-Term Notes in the Inter-bank Bond Market*, the *Rules for Meetings of Non-financial Enterprise Debt Holders in the Inter-bank Bond Market*, Articles 23 to 31 of the *Pilot Rules on the Issuance of Corporate Bonds*. These are regulations relating to investors' protection, and related provisions shall be continuously improved along with the demand for the development of a cross-border bond market.

V. Description of the Securities Settlement System

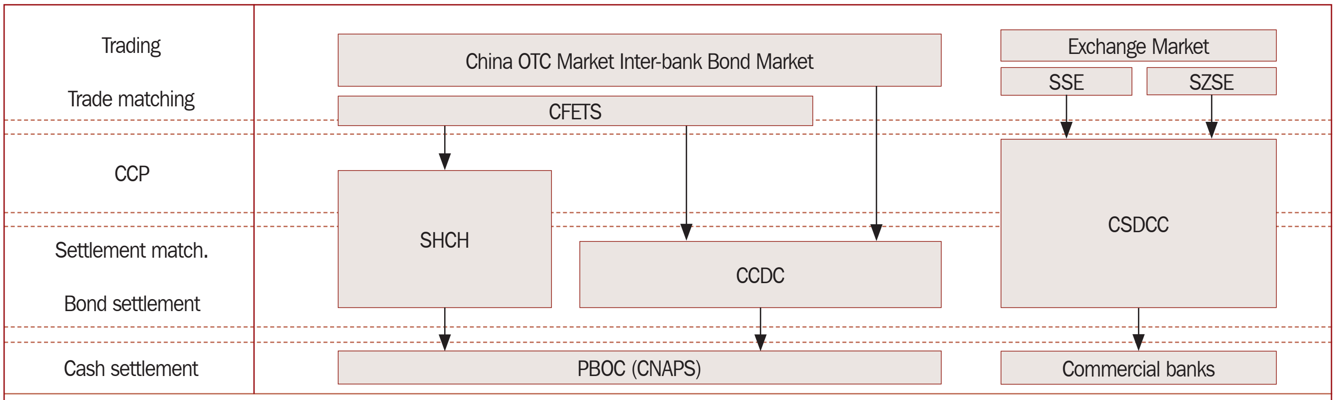
A. The Custody System

There are three central securities depositories (CSDs) serving China's bond market, namely China Central Depository and Clearing Corporation, Limited (CCDC), Shanghai Clearing House (SHCH), and China Securities Depository and Clearing Co. Ltd. (CSDCC). Specifically, CCDC and SHCH are the CSDs for the China Inter-bank Bond Markets (OTC markets), while CSDCC serves the exchange markets.

For Treasury bonds, CCDC plays the role of central custodian, while commercial banks and CSDCC work as sub-custodians for the commercial bank OTC bond market and the exchange bond market, respectively. Bonds of other types, however, are in the central custody of their respective CSDs.

B. The Securities Settlement Infrastructures

Figure 5.1 Bond Market Infrastructure Diagram



CFETS and NIFC: China Foreign Exchange Trade System and National Interbank Funding Center, SSE: Shanghai stock exchange, SZSE: Shenzhen stock exchange, CCDC: China Central Depository and Clearing Corporation, CSDCC: China Securities Depository and Clearing Corporation, SHCH (Shanghai Clearing House), CNAPS: China National Automatic Payment System
Note: Commercial Bank Counter Market is not shown here.
Source: ADB consultant.

1. Central Securities Depositories and Products Custodians

CCDC mainly takes the custodian role for instrument types such as government bonds, central bank bills, financial bonds, corporate credit bonds, MBSs and asset-backed securities (ABS), and foreign bonds.

SHCH basically deals with innovative instruments and money-market tools like super and short-term commercial papers, and credit risk mitigation instrument. CSDCC is responsible for the custody of exchange-traded securities, including Treasury bonds, corporate bonds, equities, warrants, exchange-traded funds, and ABSs.

2. Transaction Confirmation and Straight-Through Processing

CCDC and SHCH have implemented straight-through processing by connecting the custody systems with the trade system of the National Inter-bank Funding Center (NIFC).[7] In the daytime, the trade system would send the transaction data to the CSDs in near real-time. The CSDs generate settlement instruction, indicating the transaction is to be settled.

3. Settlement Cycles

At present, bond settlement between inter-bank bond-market participants is done by CCDC or SHCH in a near-real-time trade-by-trade mode with a settlement cycle of T+0 or T+1. For exchange markets, the settlement cycle is T+1.

4. Settlement Methods

Settlement methods in the Inter-bank Bond Market include free of payment, payment against delivery, delivery against payment, and delivery versus payment (DVP). CCDC and SHCH have implemented the DVP mechanism by connecting their business systems with China's central bank's RTGS system. For exchange markets, the settlement method is DVP.

5. Bond Settlement Processing Flow Chart

Table 5.1 Settlement Processing Overview Chart

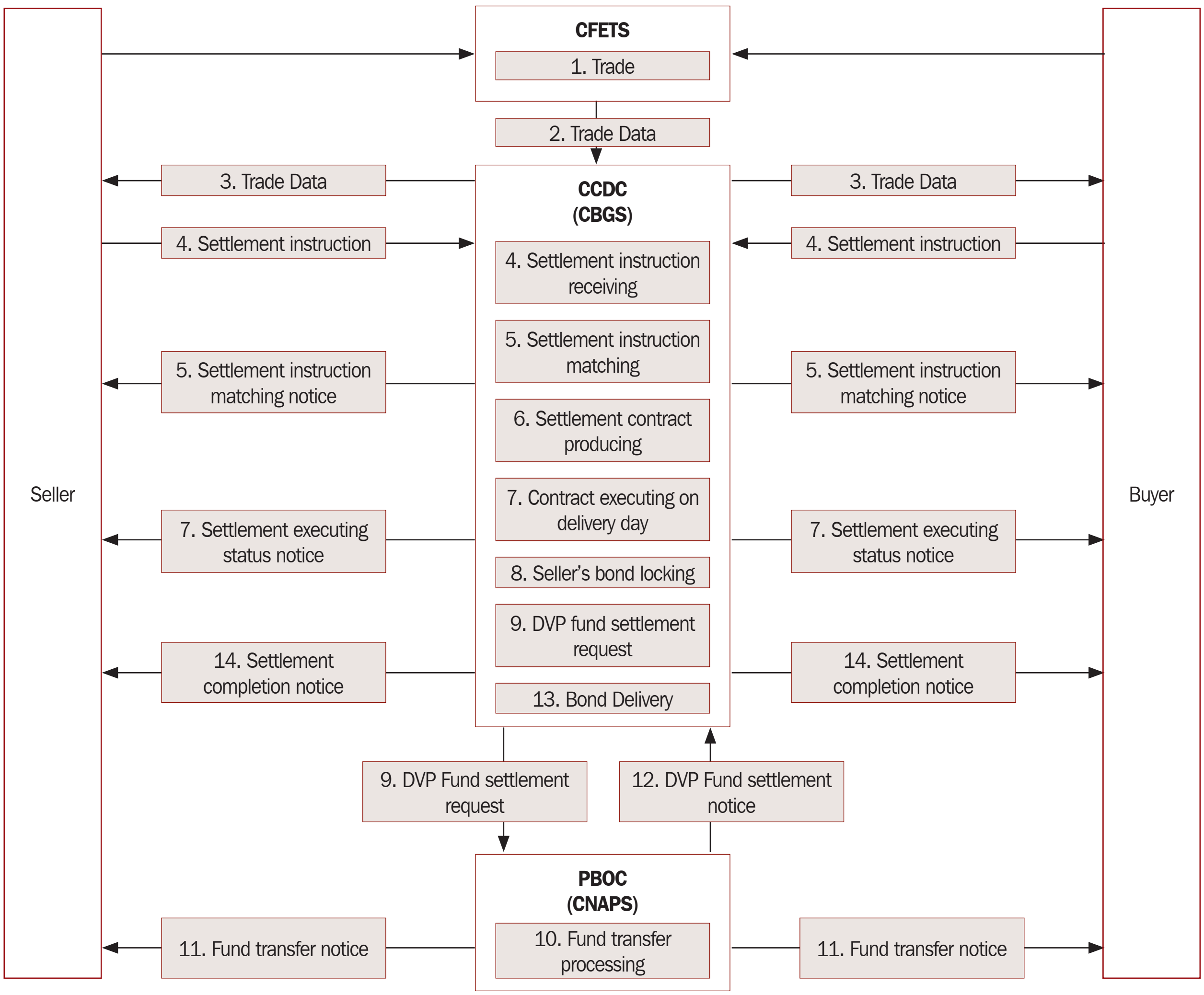
Items		Inter-bank Bond Market		Commercial Bank OTC Bond Market	Exchange Bond Market
Trading		Trade system of NIFC	Telephone/Broker	Commercial banks counter	Exchange trade systems
Matching	Trade matching	Trade system of NIFC	Trade system of NIFC	–	SSE SZSE
	Post-trade matching	CCDC/SHCH	CCDC/SHCH		
	Clearing	SHCH/bilateral clearing between counterparties		–	CSDCC
	Settlement	CCDC/SHCH	CCDC/SHCH	–	CSDCC
	DVP	Gross DVP	Gross DVP	–	Net DVP
	Fund Settlement	High-Value Payment System (HVPS)		Commercial Banks	Internal Cash Settlement System
	Bond transfer	CCDC/SHCH	CCDC/SHCH	Commercial Banks	CSDCC

CCDC = China Central Depository and Clearing Co. Ltd.; CCP = central counterparty; CSDCC = China Securities Depository and Clearing Co. Ltd.; DVP = delivery versus payment; NIFC = National Inter-bank Funding Center; OTC = over-the-counter; SHCH = Shanghai Clearing House
Source: People's Bank of China.

7 CFETS and NIFC

C. The Bond Transaction Flows

Figure 5.2 Bond Transaction Flow for Domestic Trades in the Over-the Counter Market/Delivery versus Payment



CBGS = Central Bond General System; CCDC = China Central Depository and Clearing; CNAPS = China National Automatic Payment System; DVP = Delivery Versus Payment; PBOC = People's Bank of China

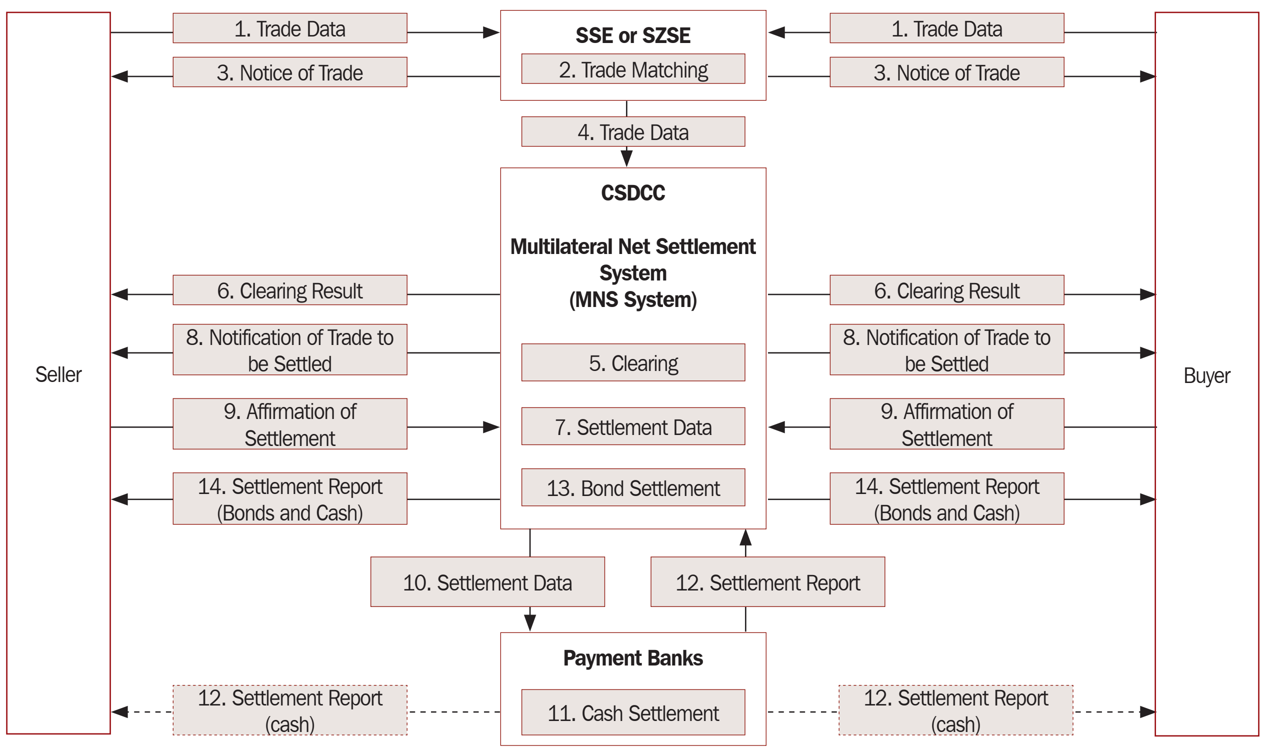
Source: ABMF SF2.

OTC Market

1. Seller and buyer trade bond via China Foreign Exchange Trade System (CFETS). CFETS provides automatic trade matching function. But, most of the bonds are traded bilaterally in China OTC Market by telephone or some other ways. The trade data are entered to CFETS for price transparency.
2. CFETS sends trade data to China Central Depository and Clearing Co. Ltd. (CCDC). About 5% of trade data are entered to CCDC directly from seller and buyer (refer to 4. Settlement instruction).
3. CCDC sends trade data to seller and buyer for verification.

4. When seller and buyer received trade data from CCDC, seller and buyer verify the data. If the data are correct, seller and buyer send affirmative message to CCDC. The messages are regarded as "settlement instructions" to CCDC. About 5% of trades are directly entered to CCDC after traded in China OTC Market. In this case, one party (either seller or buyer) needs to send settlement instruction into CCDC system. The settlement instruction needs to contain full message items necessary for the settlement. CCDC system will automatically ask the other party to confirm. If not, CCDC won't process settlement. After matching the order (local matching), CCDC will settle the trade in FOP or DVP as requested by customers.
5. CCDC matches settlement instructions from the seller and buyer and notifies matched result.
6. CCDC produces settlement contract.
7. On the settlement day, CCDC executes the settlement contract and notifies the status to the seller and buyer.
8. CCDC blocks seller's bond to secure DVP transaction.
9. CCDC sends DVP fund settlement request to People's Bank of China (PBOC).
10. PBOC executes fund settlement. Fund is transferred from buyer's current account to seller's current accut by High Value Payment System (HVPS) of CNAPS.
11. PBOC sends fund transfer notice to the seller and buyer.
12. PBOC sends DVP fund settlement notice to CCDC.
13. CCDC executes bond delivery (release blocked bond).
14. CCDC sends settlement completion notice to the seller and buyer.

Figure 5.3 Bond Transaction Flow for Domestic Trades Exchange Market/Delivery versus Payment

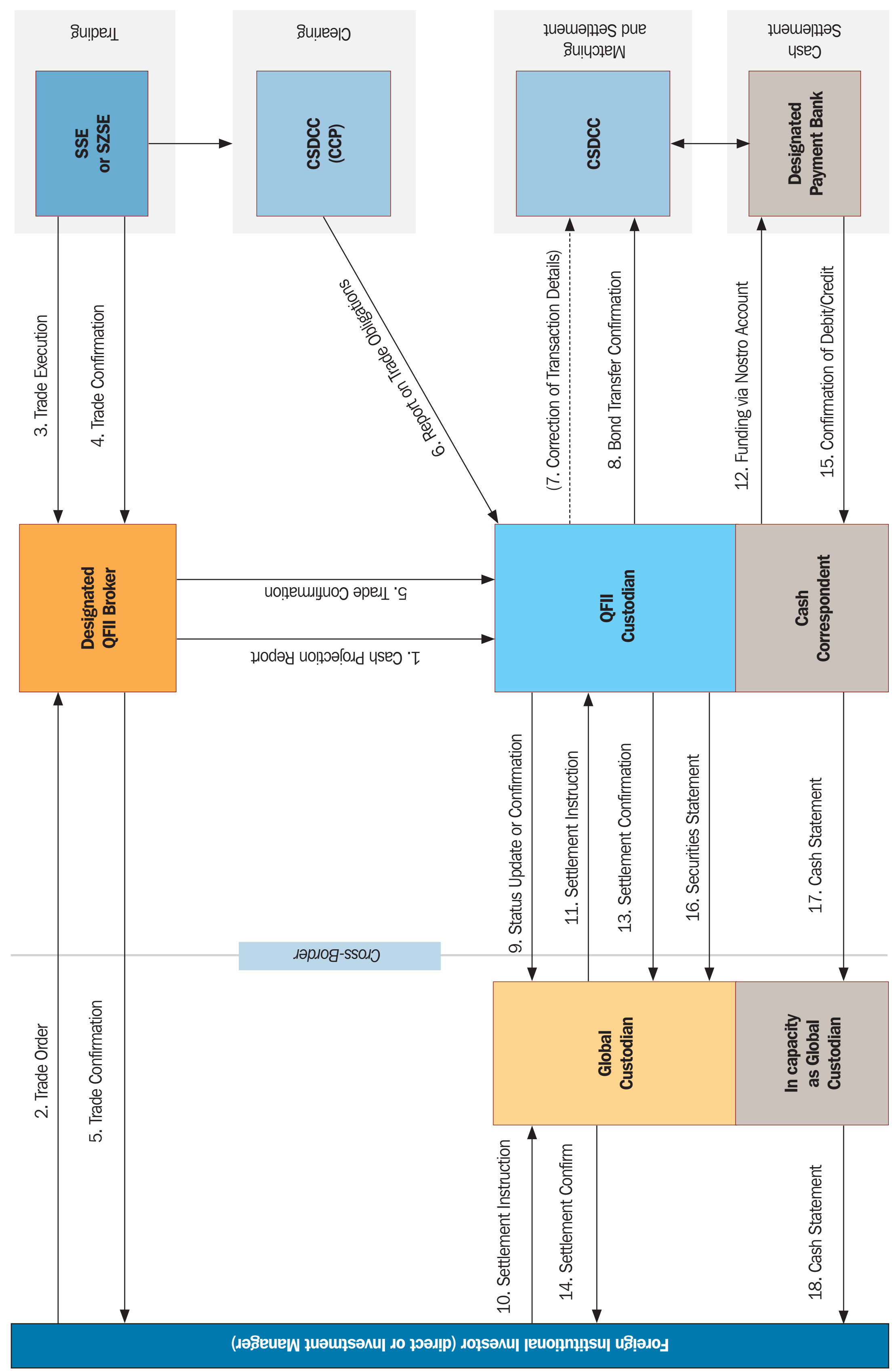


SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange
Source: ABMF SF2.

Exchange Market

1. The seller and buyer trade via Shanghai Stock Exchange (SSE) or Shenzhen Stock Exchange (SZSE).
2. SSE/SZSE collates orders from the seller and buyer.
3. SSE/SZSE sends notice of trade to the seller and buyer. (to be confirmed)
4. SSE/SZSE sends trade data to China Central Depository and Clearing Co. Ltd. (CSDCC).
5. Clearing function in CSDCC executes clearing process.
6. Clearing function in CSDCC sends clearing result to the seller and buyer.
7. Clearing function in CSDCC sends settlement data to CSD function in CSDCC.
8. CSD function in CSDCC sends notice of trade to be settled to the seller and buyer.
9. The seller and buyer send affirmation of Settlement.
10. CSDCC sends settlement data to payment banks.
11. Payment banks perform cash settlement.
12. Payment banks sends settlement reports to CSDCC, seller and buyer.
13. CSD function in CSDCC executes bond settlement.
14. CSDCC sends settlement report (bonds and cash) to the seller and buyer

Figure 5.4 Bond Transaction Flow for Foreign Investors Exchange Market/Qualified Foreign Institutional Investors



CCDC = China Central Depository and Clearing; CCP = Central Counterparty; QFII = Qualified Foreign Institutional Investors; SSE = Shanghai Stock Exchange; SZSE = Shenzhen Stock Exchange

Source: ABMF SF2.

Trade Data

1. QFII Custodian send cash projection report to Designated QFII Broker
2. QFII places order with Designated QFII Broker
3. Designated QFII Broker checks balance, executes trade on Shanghai Stock Exchange (SSE), or Shenzhen Stock Exchange (SZSE)
4. Designated QFII Broker receives trade confirmation
5. Designated QFII Broker sends trade confirmation to QFII, and to QFII Custodian
6. QFII Custodian downloads Report on Trade Obligations from CSDCC (Clearing function)
7. Only in the event of a discrepancy, QFII Custodian needs to contact CSDCC
8. CSDCC (Settlement function) sends confirmation of transfer of bonds to QFII Custodian (on T evening)

Settlement Date (T+1)

9. QFII Custodian sends status update or partial settlement confirmation to Global Custodian
10. QFII instructs Global Custodian on settlement details
11. Global Custodian instructs QFII Custodian on settlement details
12. QFII Custodian funds settlement clearing reserve account (CSDCC account at Payment Bank)
13. After cash settlement deadline (in effect completion of trade settlement), QFII Custodian sends settlement confirmation to Global Custodian
14. Global Custodian sends settlement confirmation to QFII
15. Payment Bank sends debit/credit information in form of cash statement to QFII Custodian
16. QFII Custodian sends securities statement to Global Custodian (end of day)
17. QFII Custodian sends cash movement confirmation/cash statement to Global Custodian (end of day)
18. Global Custodian sends cash movement confirmation/cash statement to QFII (end of day)

VI. Costs and Charging Methods

Currently, the costs and charging methods in the China bond market involve trading, clearing and settlement, and registration and custody, respectively.

A. Charging Methods for Trading in China's Bond Market

Transaction in China's Inter-bank Bond Market involves the trade system of NIFC and money-brokering corporations, while exchange market in-house trading is done through the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE). Treasury bonds are also traded through commercial banks' counters, as well. Charging methods for trading in China's Inter-bank Bond Market are as follows:

1. NIFC charges transaction fees based on the transaction amount from both parties. Transaction fee rates differ for various products or financing maturities, ranging from 0.005 to 0.25 basis points (bp), with a ceiling of ¥1,000 per transaction.[8]
2. Money brokers' commission fee rate is subject to negotiation with each client.
3. SSE charges transaction fees and security transaction regulation fees based on the transaction amount from both parties. Transaction fee rate is 1 per million with a ceiling of ¥100 per transaction; security transaction regulation fee rate is 0.1 bp.[9]
4. SZSE charges transaction fees and security transaction regulation fees based on the transaction amount from both parties. Transaction fee rate for convertible bonds is 0.40 bp; transaction fee rates for other bonds range from ¥0.1 to ¥10 per transaction. Security transaction regulation fee rate is 0.1 bp.[10]
5. Commercial banks' OTC bond services charge is included in their quoted price, and, therefore, with no extra fees.

8 China Foreign Exchange Trade Center and the National Interbank Funding Center. http://www.chinamoney.com.cn
9 Shanghai Stock Exchange. http://www.sse.com.cn
10 Shenzhen Stock Exchange. http://www.szse.cn

B. Charging Methods for Clearing and Settlement

Clearing and settlement in the China bond market is through CCDC, SHCH, CSDCC, and commercial banks counters.

1. CCDC charges settlement fees from both parties for every transaction. For different bond types and settlement methods, fees range from ¥100 to ¥200.[11]
2. SHCH charges settlement fees from both parties for every transaction. Settlement fees range from ¥100 to ¥200 per transaction according to bond types and settlement methods.[12]
3. CSDCC charges 0.10 bp as security settlement risk fund from both parties based on the transaction amount.[13]
4. Commercial banks' OTC bond service charges ¥50 for non-trade transfer rollout per transaction.[14]

C. Charging Methods for Registration and Custody

Fees for registration and custody in China's bond market are charged by CSDs.

1. CCDC charges issuance and registration fees by a certain proportion of the issuance amount from 0.6 to 1.15 bp according to the issuance amount and maturity.[15]
2. SHCH charges issuance and registration fees ranging from 0.3 to 0.5 bp of face value according to the bond maturity.[16]
3. CSDCC charges corporate bond issuance and registration fees in proportion to the issuance amount and maturity, and ranging from 0.1 to 0.6 bp. CSDCC's custody fees include pledge registration fees and crossmarket custody fees that range from ¥10 to ¥10,000.[17]
4. Commercial banks' OTC bond service charges ¥10 for opening a custody account and ¥20 for cross-market custody per time.[18]

11 China Central Depository Clearing Co., Ltd. http://www.chinabond.com.cn
12 Shanghai Clearing House. http://www.shclearing.com
13 China Securities Depository and Clearing Co. Ltd. http://www.chinaclear.cn
14 Source: Commercial banks' websites
15 China Central Depository and Clearing Co. Ltd. http://www.chinabond.com.cn
16 Shanghai Clearing House. http://www.shclearing.com
17 Based on data CSDCC reported to ASEAN+3 Bond Market Forum.
18 Source: Commercial banks' websites

VII. Market Size and Related Statistics

A. Issuance, Custody and Settlement in China's Inter-bank Bond Market

Table 7.1 Issuance, Custody and Settlement in China's Inter-bank Bond Market, 5-Year Period Covered (¥ trillion)

Year	Issuance	Custody	Settlement
2005	4.22	7.26	22.87
2006	5.71	9.26	38.35
2007	7.98	12.22	63.13
2008	7.07	15.11	101.32
2009	8.65	17.53	122.09
2010	9.51	20.17	162.79

Source: Central Depository and Clearing Co., Ltd. www.chinabond.com.cn

B. China's Financing Structure from 2005–2009

Table 7.2 China's Financing Structure, 5-year Period Covered (¥ trillion and percentage)

Year	Total Financing	Bank Loans	% of Total Financing	Treasury Bonds	% of Total Financing	Corporate/ Enterprise Bonds	% of Total Financing	Equity	% of Total Financing
2005	31,507	24,617	78.1	2,996	9.5	2,010	6.4	1,884	6.0
2006	39,874	32,687	82.0	2,676	6.7	2,266	5.7	2,246	5.6
2007	49,817	39,205	78.7	1,790	3.6	2,290	4.6	6,532	13.1
2008	60,486	49,854	82.4	1,027	1.7	6,078	10.1	3,527	5.8
2009	130,747	105,225	80.4	8,182	6.3	12,320	9.4	5,020	3.8

Source: China Financial Market Development Report (2009).

C. Depository Products on the Shanghai Clearing House

Table 7.3 Statistics on Shanghai Clearing House Custody Products
(As of 25 February 2011, Accumulative)

	No. of Securities Issued	Total Amount of Securities Issued (in ¥100 million)	No. of Settlement	Principal Settled (in ¥100 million)	Fund Settled (in ¥100 million)
Super and short-term commercial Papers	11	850.00	70	217.15	217.23
Credit risk mitigation warranty	8	6.90	6	2.40	0.01

Source: Shanghai Clearing House. http://www.shclearing.com

D. Exchange-Traded Bonds Transactions

The succeeding tables provide the statistics on exchange-traded bonds transactions.

Table 7.4a General Information on Listed Bonds until February 2011

Bond Type	Shanghai Stock Exchange	Shenzhen Stock Exchange
Government bonds	137	137
Local government bonds	60	60
Corporate/Enterprise bonds	264	68
Convertible bonds	8	5

Source: China Securities Depository and Clearing Co. Ltd. (CSDCC) data supplied to ASEAN+3 Bond Market Forum (ABMF).

Table 7.4b Bond Turnover of the Shanghai Stock Exchange (¥ billion)

Bond Type	2004	2005	2006	2007	2008
Government bonds	339.59	321.94	153.74	126.22	207.59
Corporate/enterprise bonds			12.46	31.64	140.64
Convertible bonds			16.90	21.18	30.16
Repo	4,660.18	2,491.91	1,629.92	1,860.89	2,430.68

Source: CSDCC data supplied to ABMF.

Table 7.4c Bond Turnover of the Shenzhen Stock Exchange (¥ billion)

Bond Type	2004	2005	2006	2007	2008
Government bonds	0.54	0.78	0.33	0.51	4.66
Corporate/enterprise bonds	2.17	2.98	4.03	6.54	32.37
Convertible bonds	29.87	19.18	10.55	19.74	12.05

Source: CSDCC data supplied to ABMF.

VIII. Islamic Bond *(Sukuk)* Market

At present, there is no Islamic bond *(sukuk)* market in mainland China.

IX. Direction of Future Development

Regulatory authorities are determined to promote the overall sustainable development of the bond market in China to optimize the allocation of market resources and better serve the real economy.

The first step is to further promote the development of the OTC bond market for qualified institutional investors, and strengthen market discipline and risk-sharing mechanism.

Second is to encourage innovations and improve supervision and regulations.

Third is to lay a solid foundation for the bond market by enhancing market infrastructure and risk prevention.

Moreover, strengthening the coordination of regulation, along with the formation of market-wide efforts for the market development will be pursued.

Furthermore, the connectivity between exchange market and the Inter-bank Bond Market based on a clear direction of market development should be undertaken. Last but not least, the opening up of the bond market in an active and robust way will likewise be promoted.

NOTE:

This guide was produced based on the official comments made by the PBOC on the ABMF Questionnaire.

The English version of relevant rules and regulations is used for reference only. Should the English version not match the original text in Chinese, the Chinese version shall prevail.