

# **Rules for Bond Transactions and Circulation of National Inter-bank Funding Center**

## **Chapter 1 General Provisions**

**Article 1** For the purpose of regulating the bond transactions and circulation in China's Inter-bank Bond Market, safeguarding the legitimate rights and interests of bond investors, the Rules are formulated in accordance with *No.9 Announcement* published by PBC in 2015, other relevant laws, regulations, normative documents and self-regulatory rules.

**Article 2** *The Rules* applies to all legally issued bonds traded at National Inter-bank Funding Center (hereinafter referred to as "CFETS").

Bond securities include but not limited to government bonds, central bank bills, corporate bonds, and debt financing instruments of non-financial enterprises, as well as asset-backed securities, etc.

**Article 3** CFETS makes no judgment over bond investment risk or yield, even though bond trades through CFETS.

## **Chapter 2 Bond Transaction and Circulation**

**Article 4** Issuers and primary underwriters are responsible for submitting following documents to CFETS on bond security registration date:

- (1) List of initial holders and corresponding holding amount
- (2) Registration form of transaction and circulation

Issuer or primary underwriter may also entrust bond security registration and depository service institution to provide CFETS with the list of initial holders and corresponding holding amount.

For private issuance, in addition to above files, issuers and primary underwriter ought to submit the scope of investors to CFETS on bond

registration date. Private placement note (PPN) issuers may entrust National Association of Financial Market Institutional Investors (hereinafter referred to as "NAFMII") to transmit abovementioned information to CFETS.

**Article 5** CFETS will finalize transaction and circulation procedure within one business day after receiving all required element information for bond trading.

**Article 6** CFETS will adjust bond trading elements according to modification information on bond transaction and circulation once received.

**Article 7** When introducing innovative and exotic items into bond issuance, issuers shall submit prospectus to CFETS for choosing proper trading mode.

### **Chapter 3 Information Disclosure Requirements for Major Events in Transaction and Circulation Period**

**Article 8** Bond (excluding treasury bonds and central bank bills) issuers shall abide by relevant rules to provide constant information disclosure through [www.Chinamoney.com.cn](http://www.Chinamoney.com.cn) or other information channel nominated by PBC.

**Article 9** Information disclosure obligators such as issuers, credit rating agencies and other insiders are strictly forbidden from participating in inside trading, market manipulation and any other activities jeopardizing market integrity before relevant information is properly disclosed.

**Article 10** Issuers and other obligators ought to disclose information in authentic, accurate and comprehensive manner. Any intention or actions to falsify, misleading and omitting on factual description is strictly forbidden. Obligator needs to explain to CFETS and makes public announcement if the information disclosed contains anything falsified, omitted or misleading.

**Article 11** In bond transaction and circulation period, if any situation described in Article 9 occurs, issuers shall report to market participants through [www.Chinamoney.com.cn](http://www.Chinamoney.com.cn) and other channel designated by PBC immediately.

Other important event which would affect the on schedule bond payments shall also disclosed timely by the issuers.

**Article 12** After issuers have disclosed significant events, if such events have any progress or change that may exert major impact on issuers' solvency, relevant updated information and any possible impact shall be disclosed on [www.Chinamoney.com.cn](http://www.Chinamoney.com.cn) within two business days.

**Article 13** If bond prospectus includes annex regarding principal and interest payments, interest rates, tenors and such, issuers ought to announce on [www.Chinamoney.com.cn](http://www.Chinamoney.com.cn) and other channel designated by PBC when meeting annex requirements or choosing to exercise underlying rights.

**Article 14** Issuers shall conduct information disclosure in accordance with relevant laws and regulations, normative documents, self-regulatory rules, in the event that such rules are stricter in information disclosure.

**Article 15** CFETS shall review and assess the form of disclosure documents provided by information disclosure obligators according to relevant laws, administrative regulations, normative documents, self-regulatory rules, other regulatory files and *the Rules*. Nevertheless, CFETS has not responsibility to guarantee the authenticity of information disclosed and materials provided.

## **Chapter 4 Information Disclosure Requirements for Specific Transactions**

**Article 16** CFETS provides facilitates of trading information disclosure to investors who disclose trading information to the market through CFETS trading system in accordance with *the Rules*. Where there is

special arrangement for treasury bonds and central bank bills, such arrangement shall be applied.

Bond transactions include dealings in cash bond, pledged repo, outright repo, securities lending, bond forward and bond pre-listing.

**Article 17** Within bond transaction and circulation period, issuers planning to redeem part of or all debts issued in the secondary market shall follow relevant regulations or contract terms and make public announcement to market participants, with regard to the amount of bonds to be redeemed, price and method. When choosing redemption method, issuer shall treat all investors equally.

Issuers shall disclose details to all market participants on the date when the proposed redemption is completed.

**Article 18** Within bond transaction and circulation period, if single investor holds more than 30% of that particular bond outstanding, CFETS shall disclose the holding information once provided by bond registration, custody and settlement institutions to all market participants.

**Article 19** Transactions taken by parent company or other subsidiaries (branches) under the same parent company include:

- (1) Transaction parties are independent legal entities, but one of them is under control of the other in investment proportion, shareholding or contractual agreement;
- (2) Transaction parties are independent legal entities (or branches) and under control of the same parent company (or head company);
- (3) Transaction parties are head company and its branch.

**Article 20** Bond transactions between asset manager's proprietary account and asset management account, or between different asset management accounts:

(1) One party in transaction is financial institutional participant, and the counterparty is the portfolio manager of the same financial institution or non-legal entity product managed by the same financial institution;

(2) Transaction parties are non-legal entity participants, and managed by the same financial institution.

**Article 21** Before participating in transactions mentioned in Article 19 and Article 20 of *the Rules*, investors shall establish transaction management policies, formalize pricing mechanism, internal control, internal assessment procedure, information disclosure and submit relevant documentation to CFETS.

**Article 22** Transaction parties or asset manager ought to disclose information on the transactions mentioned in Article 19 and Article 20 to all market participants within the first five business days of each month. Information disclosure statement shall include details such as names of transaction parties, underlying securities, transaction prices and volume, etc.

When single repo transaction amount (accumulative volume of same counterparty and tenor on a day) exceeds RMB1 billion, or single trade of other type of bond transactions (accumulative volume of same counterparty and tenor on a day) exceeds RMB200 million, participants have the obligation of reporting to CFETS by explaining trading incentive, pricing reference and possible impacts within five business days.

When transaction parties are under common control of the Ministry of Finance, State-owned Assets Supervision and Administration Commission (“SASAC”) or its platform companies, or transactions mentioned in Article 19 and Article 20 are concluded in Central Limit Order Book (CLOB) trading method, no information disclosure or reporting is required.

When transaction parties are under common control of local SASAC offices or their platform companies, information disclosure or reporting exemption can be applied at CFETS.

**Article 23** Issuers are not allowed to use self-issued bond for outright repo transactions. When using self-issued bond as collateral for pledged repo transactions, issuers shall treat other similar bond securities in equal manner and any additional benefit or condition for using self-issued are strictly prohibited.

When issuers using self-issued bond as collateral for pledged reverse repo transactions, intraday reverse repo trading volume is not allowed to exceed 5% of last 30-day average daily trading volume; if the bond issuance amount outweighs 10% of that particular bond outstanding in inter-bank bond market, when issuers using self-issued bond as collateral for pledged reverse repo transactions, intraday reverse repo trading volume is not allowed to exceed 2% of last 30-day average daily trading volume.

**Article 24** Before using self-issued bond as collateral for pledged repo transactions, issuers shall establish trading management and risk control procedures, build firewall mechanism separating primary issuance and secondary trading in order to prevent violation activities. Aforementioned trading management and risk control procedures shall be submitted to CFETS for record.

**Article 25** Issuers shall disclose information on pledged repo transactions using self-issued bonds, including tenors and VWAP on next business day.

## **Chapter 5 Fair Trading**

**Article 26** When investors participate in market activities mentioned in Article 19, Article 20 and Article 23 in *the Rules*, deals shall be done at market price. Tunneling and market price interfering activities are strictly prohibited.

If above transactions are done at price deviated from normal market level, investors shall file pricing reference and explanation on price discrepancy to CFETS, and provide supporting evidence according to CFETS requirements. If the transaction is considered as tunneling and market price interfering based on CFETS assessment, CFETS shall send notification letter to investor's compliance department, investigate such investor and report to PBC, while copy to NAFMII.

**Article 27** Valid market price level references include dealt price on market maker's quote, volume weighted average price of the market, bond valuation and yield curves published by CFETS and bond registration, custody and settlement institutions.

**Article 28** CFETS oversees trading activities mentioned in Article 23 of *the Rules* and open to receive report from all market participants. CFETS shall conduct issuer investigation and report to PBC and copy to NAFMII in the event that following situation occurs. If following situations are confirmed by the investigation, CFETS will take action based on Article 39 of *the Rules*.

- (1) Violating holding overhead limitation mentioned in Article 23;
- (2) Using self-issued bond as collateral for repo transaction and the dealt price is significantly better than same-condition bond as collateral repo transactions;
- (3) The portion of using self-issued bond as collateral for repo transaction is higher than the portion of such bond's outstanding versus the entire market's outstanding; and
- (4) Other suspicious bond price interfering activities involving using self-issued bond as collateral for repo transactions.

## **Chapter 6 Trading Information Database**

**Article 29** CFETS serves as trading information database in inter-bank bond market. Market participants shall confirm bond transactions in CFETS trading system, and conduct settlement at bond registration, custody and settlement institutions based upon it.

## **Chapter 7 Suspension, Resuming and Termination of Trading Service**

**Article 30** To protect market integrity, CFETS has right to suspend, resume and terminate relevant bond transaction and circulation service based on market conditions and issuer's application, and inform bond registration, custody and settlement institutions. Where there is special arrangement for treasury bonds and central bank bills, such arrangement shall be applied.

**Article 31** In the event that following situations occur before the information disclosure is made, issuers ought to apply for trading halt from CFETS on relevant bond securities. After properly disclosing information, the trading halt can be lifted:

- (1) Uncertainty and confidentiality leaking risk involving with significant event for reporting, or confidentiality is breached before disclosure.
- (2) Non-disclosure information appears in public media and may or have caused actual influence.

**Article 32** CFETS has right to suspend bond transaction and circulation till proper disclosure is made if the issuer has not followed rules in Chapter 3 to disclose significant events.

**Article 33** While bond transaction and circulation service is suspended by CFETS, the information disclosure obligator ought to provide explanation on trading halt, and constant feed on event progress.

**Article 34** CFETS has right to suspend transaction and circulation service on certain bonds if abnormal price fluctuation happens and has significant negative impact on market pricing function.

**Article 35** During bond transaction and circulation, CFETS shall suspend trading service caused by incorrect bond information submission till ramification is provided.

**Article 36** CFETS shall stop bond trading service if situations mentioned in Article 15 of *the Rules* occur.

## **Chapter 8 Regulation Measures**

**Article 37** The following are violation activities:

- (1) Fail to submit relevant documents for transactions and circulation on bond registration date;
- (2) Fail to provide constant information disclosure when bond security is outstanding;
- (3) Fail to fulfill active duty on trading information disclosure and reporting when conducting transactions listed herein;
- (4) Bond price manipulation by repo transactions as issuer;
- (5) Using bond transactions to conduct tunneling and influence bond market price;
- (6) Apply for trading halt and bond circulation suspension without following the Rules and lead to abnormal trading activities; and
- (7) Other rule-breaching activities.

**Article 38** CFETS has right to conduct a thorough investigation on legal entity considered rule-breaching under Article 37, and relevant party has obligation to provide documents and materials according to CFETS

requirements. Market participants have right to report violation activity to CFETS.

**Article 39** If a market participant fouls under Article 37, CFETS shall proceed violations according to PBC requirements and take the following actions in view of the seriousness of the consequence, then report to PBC while copy to NAFMII.

- (1) Verbal warning;
- (2) Written warning;
- (3) Questioning;
- (4) Circulate notice of criticism;
- (5) Trading login suspension.

**Article 40** The market participant has right to appeal at CFETS when objection arises.

## **Chapter 9 Supplementary Provisions**

**Article 41** CFETS reserves the rights of interpretation and alteration of the Rules.

**Article 42** The Rules comes into effect upon the day of promulgation.

June 4, 2015