

Announcement to Publish *National Interbank Funding Center “Bond Connect” Trading Rules (Tentative)*

Zhonghuijiaofa [2017] No. 223

To the participants of the Interbank Market:

To ensure lawful and smooth operation of Bond Connect business, the National Interbank Funding Center has promulgated the *National Interbank Funding Center “Bond Connect” Trading Rules (Tentative)*, which have been agreed to by the People’s Bank of China (Yinshichang [2017] No. 19), and are hereby published to the market. Please implement and comply with requirements therein.

Enclosed: *National Interbank Funding Center “Bond Connect” Trading Rules (Tentative)*

National Interbank Funding Center

June 22, 2017

NATIONAL INTERBANK FUNDING CENTER “BOND CONNECT” TRADING RULES (TENTATIVE)

1 General Provisions

- 1.1** To ensure the businesses of Bond Connect are conducted in an orderly manner, these Rules are formulated in accordance with the *Joint Announcement of the People’s Bank of China (“PBOC”) and the Hong Kong Monetary Authority on Bond Connect*, the *Interim Measures for Administration of Mutual Access between Hong Kong and Mainland China Bond Markets (PBOC Order [2017] No. 1)* published by PBOC, the *Administrative Measures for Bond Trading on National Inter-bank Bond Market (PBOC Order [2000] No. 2)* published by PBOC, the *PBOC Public Announcement [2015] No. 9*, the *National Inter-bank Market Bond Trading Rules (Zhonghuijiaofa [2010] No. 283)*(the “**Trading Rules**”) published by National Interbank Funding Center (hereby referred to as “**CFETS**”), the *National Interbank Funding Center Rules for Bond Trades and Circulation (Zhonghuijiaofa [2015] No. 203)* (the “**Circulation Rules**”) published by CFETS and other related business rules.
- 1.2** “**Bond Connect**”, as referred to in these Rules, means the institutional arrangements where onshore and offshore investors may buy and sell bonds in circulation in bond markets in Mainland China and Hong Kong through the connection of the market infrastructures of these two bond markets.

*This English translation has been prepared by Linklaters Hong Kong and may be reproduced solely for internal educational purposes. While every effort has been made to ensure the accuracy of the translation, it is not possible to guarantee an exact English translation since each language has its own grammatical structures, embodies different legal and cultural concepts and is open to different interpretation. Therefore, this English translation must not be relied upon by any person in making any decision or taking any action.

Linklaters

These Rules apply to Northbound Link only. Northbound Link means the institutional arrangements where offshore investors invest in the China Interbank Bond Market (“CIBM”) via the mutual access and connection of the market infrastructures of the Mainland Chinese and Hong Kong bond markets.

- 1.3 CFETS provides trading services to Northbound Link. The onshore and offshore investors who participate in Northbound Link trades (together referred to as “**Northbound Link Investors**”), the offshore electronic trading platforms recognised by the PBOC which connect offshore investors and provide them with client interfaces to the CFETS system (“**Offshore Electronic Trading Platforms**”) and the institution which undertakes service functions of supporting trades related to Northbound Link (the “**Northbound Link Trading Service Institution**”) shall comply with these Rules when conducting businesses related to Northbound Link trades.
- 1.4 The abovementioned institutions shall comply with the relevant Mainland China laws, administrative regulations, ministerial and departmental rules, regulatory documents and business rules when conducting Northbound Link business. The Northbound Link Trading Service Institution shall provide necessary convenience and guidance to offshore investors for their understanding of the relevant laws and rules, business procedures and market information of Mainland China.
- 1.5 Northbound Link Investors shall abide by the principles of fairness and good faith when conducting Northbound Link trades, and shall fulfill the duties of information disclosure and reporting in accordance with the relevant CIBM rules.

2 Investor Management

- 2.1 Offshore investors who participate in Northbound Link shall comply with the CIBM access eligibility conditions prescribed in the *PBOC Public Announcement [2016] No. 3*, and the *Circular on Issues relating to Offshore Central Banks, International Financial Organizations, Sovereign Wealth Funds Investment in Interbank Markets by Using Renminbi* (Yinfa [2015] No. 220).
 - 2.2 The process to admit offshore investors into the market shall be handled in accordance with the market access guidance issued by CFETS. CFETS can conduct filing and open the trading account on behalf of an eligible offshore investor for access to CIBM. Upon opening of the trading account, an offshore investor becomes a member of CFETS.
 - 2.3 CFETS will report the offshore investors trading accounts opening information to the PBOC Shanghai Head Office periodically.
 - 2.4 CFETS will organize Northbound Link price quotation institutions (the “**Quotation Providers**”) to provide continuous price quotations to offshore investors.
 - 2.5 Quotation Providers shall be market dealers with comparatively strong capabilities in terms of price quotation and price determination. They shall have sound international reputation, shall be equipped with staff, systems and apparatus that can support the continuous and stable operation of Northbound Link business, and shall possess other capabilities which are necessary for providing liquidity to bond markets.
-

Linklaters

- 2.6** A Quotation Provider shall enter into relevant agreements with CFETS to agree on the parties' respective rights and obligations in order to participate in Northbound Link business.

3 Basic Rules of the Market

- 3.1** Products available under Northbound Link are cash bond transactions. The bonds permitted for trading under Northbound Link are all types of bonds traded on CIBM, such as treasury bonds, local government bonds, central bank papers, financial bonds, corporate credit bonds, commercial papers, asset-backed securities and so on.
- 3.2** The trading day for Northbound Link shall be a day on which CIBM market is open for trading.
- 3.3** The trading hours for Northbound Link are the trading hours for CIBM, which is 9:00 – 12:00 (Beijing Time) in the morning and 13:30 – 16:30 (Beijing Time) in the afternoon for each trading day.
- 3.4** The settlement mode for Northbound Link is Delivery-versus-Payment (DVP).
- 3.5** Trading under Northbound Link shall comply with the relevant PBOC and State Administration of Foreign Exchange requirements on the administration of cross-border capital flow.
- 3.6** Trading administration fees under Northbound Link shall be charged in accordance with CIBM fee regulations.
- 3.7** CFETS shall periodically submit Northbound Link treasury bonds and local government bonds quotation and trade data to the Ministry of Finance, and it shall set up a mechanism for information sharing and communication with the bond registration, depository and settlement institutions.

4 Trading through Quotation

- 4.1** The basic process for trading under Northbound Link is as follows: offshore investors may give trading instructions through Offshore Electronic Trading Platforms; and such trading instructions will then be transmitted to the CFETS system, where the trade with the relevant counterparty will be concluded.
- 4.2** Trades under Northbound Link adopt the trading method of “request for quotation” and other trading methods. With the approval from PBOC, CFETS may adjust trading methods for Northbound Link in accordance with the market conditions and Offshore Electronic Trading Platforms conditions.
- 4.3** Request for Quotation under Northbound Link

The basic process for request for quotation under Northbound Link is as follows: offshore investors may request for quotation by sending a quotation request, specifying the number of bonds (but without specifying the price), to Quotation Provider(s) through an Offshore Electronic Trading Platform, and such request is transmitted to the CFETS system instantaneously. The Quotation Provider may respond to the offshore investor with a

Linklaters

tradable price through the CFETS system. The offshore investor may then confirm the price and conclude the trade in the CFETS system.

4.3.1 Requests for Quotation by offshore investors

- (1) Offshore investors may send quotation requests to one or more Quotation Providers. Elements of such quotation requests include trading direction, bond code, total face value, effective period of the request, the time for settlement and so on.
- (2) Offshore investors may set the effective period of its requests. Such effective period shall be no longer than one hour. The trade is automatically terminated when the time for processing a request for quotation exceeds the effective period of the request.
- (3) The minimum amount, as well as the minimum denomination, for which offshore investors may request for quotation is RMB1,000,000.

4.3.2 Responses to Requests for Quotation by Quotation Providers

- (1) Quotation Providers shall endeavour to respond promptly, to requests for quotation from offshore investors, with reasonable quotations.
- (2) In response to a request for quotation, Quotation Providers may respond with the elements of the trade, such as the name, full amount with net price, return rate upon maturity and an effective period of response; or may also decline to respond.
- (3) Quotation Providers shall respond to requests for quotation within the effective period of request specified by offshore investors, and may also specify an effective period of response, which shall not exceed the effective period of request.
- (4) Quotation Providers may decline, withdraw or amend responses to requests for quotation which have not been accepted by offshore investors.

4.3.3 Acceptance of Quotation by offshore investors

Offshore investors may choose to accept one of the quotations received from Quotation Providers within the effective period of response as specified by the relevant Quotation Provider. Upon the acceptance of a quotation by the offshore investor, the rest of the quotations received for the same request for quotation will automatically become invalid.

4.3.4 Conclusion of trades

The CFETS trading system will generate a trade confirmation upon the acceptance of a quotation by an offshore investor. The Quotation Provider, offshore investor and bond registration and depository institution shall settle the trade in accordance with the information from the conclusion of the trade.

4.4 Where an offshore investor enters into trades through its settlement agent, such trades shall be bound by the existing trading rules of CFETS.

5 Market Surveillance, Management and Information Disclosure

5.1 CFETS may conduct investigations on trading and information disclosure activities of Northbound Link Investors that violate or may violate these Rules or relevant rules of CIBM.

CFETS may directly ask the Northbound Link Investors for information on the situation or may authorise the Northbound Link Trading Service Institution to make inquiries with the Northbound Link Investors about the situation. Northbound Link Investors, Offshore Electronic Trading Platforms and the Northbound Link Trading Service Institution shall cooperate with CFETS in conducting the investigation and shall provide relevant information and evidential documents as required by CFETS.

5.2 CFETS will monitor the following abnormal trading activities in accordance with the Trading Rules and other business rules:

- (1) Sending frequent quotation amounts that do not reflect genuine trading intentions;
- (2) Responding with a tradable price or settlement price that significantly deviates from fair market value;
- (3) Conducting market manipulation, insider-dealing or market disorder activities in any manner;
- (4) Failing to perform settlement obligations pursuant to the concluded trade information, thereby leading to repeated occurrence of failed settlement;
- (5) Other acts of violation as determined by PBOC or CFETS.

Where the abovementioned abnormal trades occur with regards to Northbound Link Investors, CFETS may issue oral or written warnings, published criticism, denouncements, suspensions or revocation of its permission to trade under Northbound Link, and other measures.

5.3 If the parties to a Northbound Link trade fail to settle after the conclusion of the trade, they shall promptly submit a settlement failure explanation to CFETS. Offshore investors can submit such explanation through the Northbound Link Trading Service Institution.

5.4 Upon the occurrence of a related party trade or other specific trading activity that is required to be disclosed under the Circulation Rules, the parties to the trade shall promptly disclose through CFETS. The Northbound Link Trading Service Institution shall provide necessary guidance to offshore investors for making such information disclosure. Where offshore investors are required to provide relevant materials, The Northbound Link Trading Service Institution will submit such materials on behalf of the offshore investors.

5.5 Northbound Link Investors, the Northbound Link Trading Service Institution and Offshore Electronic Trading Platforms shall proactively collaborate with CFETS to carry out their undertakings.

6 Supplementary Provisions

6.1 With respect to these Rules and the information related to trades, such as trade elements and the contents of the trade confirmations, the Chinese version shall prevail.

Linklaters

- 6.2** With respect to trade data, the data recorded by the CFETS system shall prevail. CFETS shall have the full intellectual property rights of any information or data generated from its system.
 - 6.3** These Rules shall be interpreted and amended by CFETS.
 - 6.4** These Rules shall be effective as of the date of publication.
-