

Announcement on the Promulgation of the Rules for Bond CCP Clearing in the Inter-Bank Bond Market (Trial)

SHCH [2015] No. 5

In order to strengthen the infrastructure construction of the inter-bank bond market, promote the innovation and development of the inter-bank bond market and improve the clearing efficiency of bond transactions, Shanghai Clearing House (hereinafter referred to as SHCH), on the basis of the CCP clearing business of cash bond transactions, has developed the *Business Rules for Bond CCP Clearing in the Inter-bank Bond Market (Trial)*, forming a CCP clearing business mechanism for bond transactions covering cash bond transactions, outright repo transactions and pledged repo transactions. With approval from the People's Bank of China, the Rules are hereby officially promulgated, and matters related to the implementation of Bond CCP Clearing are announced as follows:

I. Since March 30, 2015, SHCH has launched the bond CCP Clearing business. Market institutions with Direct Clearing Membership for bond netting of SHCH may carry out proprietary bond CCP Clearing business; market institutions without clearing membership for bond netting of SHCH (non-clearing members or customers) may, through agency provided by General Clearing Members for bond netting of SHCH, participate in the bond CCP Clearing business.

II. From now on, SHCH will begin to accept membership applications, clearing limit declaration, clearing agreement signing and other work of General Clearing Members for bond netting and Direct Clearing Members for bond netting. Original clearing members for cash bond netting may, after relevant application materials are further submitted and new agreements are signed, automatically become Direct Clearing Members for bond netting. SHCH will issue a list of Direct Clearing Members and General Clearing Members for bond netting through the official website (www.shclearing.com).

III. The spot margin rate of bond CCP Clearing business is temporarily set at 1.2%, the forward margin rate is temporarily set at 0.5% and the pledged repo margin rate is temporarily set at 0.12%. SHCH may timely adjust the above parameter standards according to market conditions and publish an announcement.

It is hereby announced.

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Appendix:

Business Rules for Netting Clearing of Bond Transactions in the Inter-bank Bond Market (Trial).doc

Shanghai Clearing House
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Appendix

Business Rules for Netting Clearing of Bond Transactions in the Inter-bank Bond Market (Trial)

Chapter 1 General Provisions

Article 1 In order to standardize the net clearing business of bond transactions in the inter-bank bond market (hereinafter referred to as the “bond netting”), protect the legitimate rights and interests of the relevant parties involved, prevent clearing risks and improve clearing efficiency, Shanghai Clearing House (hereinafter referred to as “SHCH”), in accordance with the relevant state laws and regulations and the relevant regulations of the People’s Bank of China, has formulated these Rules.

Article 2 bond CCP Clearing business means that market participants submit their bond transactions entered into to SHCH for central clearing; SHCH as a central counterparty, after novation of the rights and obligations of both transaction parties, SHCH calculates the receivable or payable funds and receivable or payable bonds, pledgeable or releasable bonds of each bond netting member (hereinafter referred to as “Clearing Member”) on the same settlement date by means of multilateral netting, and establishes a corresponding risk control mechanism to ensure the successful completion of fund settlement and bond settlement. As mentioned in these rules, bond transactions include but are not limited to cash bond transactions, pledged repo transactions and outright repo transactions.

Article 3 SHCH is the netting clearing institution designated by the People’s Bank of China to provide netting clearing and related services for bond transactions in the inter-bank bond market.

Article 4 Both transaction parties may choose on their own the netting clearing or gross clearing method in the course of bond transaction completion.

Article 5 According to the clearing results, SHCH shall, in accordance with the principle of delivery versus payment, complete the irrevocable fund settlement and bond settlement with Clearing Members.

Article 6 SHCH shall implement the layered netting clearing system. SHCH is responsible for fund and bond clearing and settlement with Clearing Members. Non-Clearing Members without clearing membership may participate in the netting clearing business through General Clearing Members and the General Clearing Members that carry out the clearing on behalf of the non-Clearing Members shall novate the corresponding rights and obligations.

Chapter 2 Clearing Members and Account Settings

Article 7 A member of the inter-bank bond market that satisfies the relevant qualification requirements of SHCH may apply to become a Clearing Member to directly participate in the bond CCP Clearing business. Clearing Members are divided into General Clearing Members and Direct Clearing Members. Non-Clearing Members may indirectly participate in the bond CCP Clearing business through General Clearing Members.

Direct Clearing Members refer to Clearing Members that carry out clearing only for their own transactions. General Clearing Members refer to Clearing Members that may carry out clearing for their own transactions and may accept the entrustment of non-Clearing Members to carry out clearing on their behalf.

Article 8 Members of the inter-bank bond market that apply for clearing membership shall have the qualifications stipulated by SHCH and shall recognize and comply with the relevant regulations on the relevant clearing business of SHCH. In addition to satisfying the conditions for Direct Clearing Members, General Clearing Members shall have other qualifications stipulated by SHCH.

Original Clearing Members of cash bond CCP Clearing business may, with the consent of SHCH, become Clearing Members of bond CCP Clearing business.

Article 9 Before participating in the bond CCP Clearing business, a Clearing Member shall enter into a *Bond Netting Clearing Agreement* with SHCH, pay the initial margin and default funds, and complete the internet connection with SHCH and other requirements stipulated by SHCH.

Article 10 Direct Clearing Members shall designate or open a fund settlement account for the purpose of the fund settlement after netting clearing and authorize SHCH to make a direct debit or credit treatment to the account.

A General Clearing Member shall open a fund settlement account for the proprietary clearing business and the client clearing business, respectively. In any case, it shall not misappropriate the settlement funds paid by the non-Clearing Member it acts as agent for. Clearing Members and non-Clearing Members shall open a securities custody account for the bond settlement after netting clearing and authorize SHCH to make a direct debit or credit treatment to the securities custody account.

The fund settlement account may be a clearing account opened by a Clearing Member with the High Value Payment System of the People's Bank of China (hereinafter referred to as the "HVPS"), or a special fund settlement account opened with SHCH. The fund settlement account may be used for the fund settlement of the gross clearing business and the netting clearing business at the same time.

SHCH shall open a margin account for a Direct Clearing Member to manage and check the margins paid by the Clearing Member. For a General Clearing Member, SHCH shall open the margin accounts for the proprietary clearing business and the client clearing business separately, which are respectively used for the management and accounting of the

margins paid by the General Clearing Member for the proprietary clearing business and the client clearing business.

Article 11 A Clearing Member shall appoint two or more clearing specialists and one risk control specialist to have business contacts with SHCH on its behalf. The clearing specialists and risk control specialist shall participate in the business trainings organized by SHCH and obtain the appropriate qualification certificates. The Clearing Member is responsible for the bond CCP Clearing business activities of its appointed clearing specialists and risk control specialist in SHCH.

Article 12 SHCH shall open in its own name a clearing fund account, clearing securities account, default management fund account and default management securities account. The clearing fund account is used for fund settlement between SHCH and Clearing Members; the clearing securities account is used for bond settlement between SHCH and Clearing Members as well as non-Clearing Members; the default management fund account is used to deposit the receivable funds that SHCH does not deliver to Clearing Members temporarily in case of default by Clearing Members; the default management securities account is used to deposit the receivable bonds and bonds that should be released that SHCH does not deliver to Clearing Members and non-Clearing Members temporarily in case of default management by SHCH.

Chapter 3 Eligible Bonds and Discount Rate

Article 13 SHCH shall be responsible for setting the standards for eligible bonds that can be included in the bond CCP Clearing business. Both transaction parties shall use the eligible bonds as transaction bond types or pledged bonds for the bond CCP Clearing business.

Article 14 The pledged bond value of pledged repo transactions submitted for netting clearing shall not be less than the amount of settlement at maturity of the repurchase.

Article 15 The discount rate of each pledged bond shall be calculated and published by SHCH according to the conditions such as the residual maturity of the pledged bond, the credit rating, historical price fluctuations and market liquidity.

Article 16 SHCH shall, in accordance with market conditions, timely set or adjust the scope of eligible bonds that can be included in the bond CCP Clearing business and the pledged bond discount rates, and publish the same to the market in a timely manner.

Chapter 4 Clearing and Settlement

Article 17 The bond netting clearing system of SHCH (hereinafter referred to as the “Clearing System”) shall receive transaction data in real time and perform netting processing of transaction data subject to netting clearing. Netting processing of transaction data settled on the trade date (hereinafter referred to as “T Day”) shall be conducted on the same date. Netting treatment of transaction data settled on the working day immediately following the trade date (referred to as “T+1 Day”) shall be conducted on the T+1 Day.

Article 18 The Clearing System shall send in real time the transaction data of non-Clearing Members to the client terminals of General Clearing Members conducting clearing on its behalf for confirmation, and carry out risk control inspection on proprietary clearing transaction data and the confirmed transaction data cleared on its behalf. Transaction data that do not pass the risk control inspection will not be included in the bond netting by SHCH.

Article 19 SHCH shall include transactions whose data have passed the risk control inspection in bond netting and novate the rights and obligations of clearing and settlement of receivable or payable funds and receivable or payable bonds, and thereafter the transactions will be irrevocable and unchangeable.

Article 20 Market participants may apply to replace the pledged bonds in case of pledged repo transactions that have been included in the bond CCP Clearing business. Pledged bond replacement applications of non-Clearing Members may be submitted by General Clearing Members conducting clearing on their behalf.

Article 21 SHCH shall carry out real-time netting of the transaction data that have passed the risk control inspection and monitor the net clearing amount of Clearing Members. Clearing Members may carry out real-time inquiry through member terminals.

SHCH may, under the specific monitoring circumstances, take measures against Clearing Members such as risk warning, margin call, and suspension of the netting clearing business of Clearing Members.

Article 22 At the cut-off point of netting clearing, SHCH shall carry out final netting of all corresponding bond transactions separately by bond types and funds, calculate the final receivable or payable funds, receivable or payable bonds, and pledgeable or releasable bonds of each Clearing Member, and according to the netting results form clearing notices and send the same to the Clearing Member terminals.

Article 23 At the beginning of bond settlement, SHCH shall, in accordance with the bond clearing results, lock all payable bonds and pledgeable bonds of Clearing Members and non-Clearing Members, and the locked bonds shall not be used for other purposes. Should the payable bonds and pledgeable bonds be insufficient, they should be included in the queue to wait for processing; Clearing Members and non-Clearing Members may, through the securities lending business, make up for the corresponding bonds, and SHCH shall assist Clearing Members and non-Clearing Members in the securities lending business.

Article 24 At the beginning of fund settlement, SHCH shall, in accordance with the fund clearing results, send a fund settlement instruction to the HVPS and the Fund Management System of SHCH

(hereinafter referred to as the “Fund System”) respectively, and transfer the payable funds of Clearing Members to the concessionary clearing account opened by SHCH with the HVPS and the clearing fund account opened with the Fund System respectively. Should the payable funds be insufficient, they should be included in the queue to wait for processing. Clearing Members may, through bank credit grating and other methods, make up for the corresponding funds, and SHCH shall offer assistance.

Article 25 At the cut-off point of settlement, SHCH shall carry out settlement. If the payable funds, payable bonds and pledgeable bonds are not made up for by the time point when settlement is due, it shall be determined that the Clearing Members have committed default and the relevant provisions of Chapter 5 shall apply. If the payable bonds, pledgeable bonds and payable funds are paid in full, SHCH shall, according to the bond clearing results, transfer the bonds receivable by the bond receiver to its securities custody account, and include the bonds that should be released by the repo party in the “available” item of its securities custody account; according to the fund clearing results, send a settlement instruction to the HVPS and the Fund System, and transfer the funds receivable by the payee to its fund settlement account.

Article 26 Clearing Members shall strictly perform the corresponding obligations on the basis of the clearing notices sent by SHCH. Clearing Members shall timely verify the clearing notices. If there is any objection, Clearing Members shall timely raise the same to SHCH in written form after the completion of the settlement. For non-Clearing Members, a timely objection shall be raised to SHCH by General Clearing Members conducting clearing on their behalf after the completion of the settlement. SHCH shall, as the case may be, conduct corresponding processing.

Chapter 5 Default Disposal Arrangement

Article 27 If any of the following circumstances occurs on the part of a Clearing Member, it shall constitute default to SHCH in the bond CCP Clearing business:

(1) If a Clearing Member fails to deliver the payable funds in full as scheduled, it shall constitute fund settlement default.

(2) If a Clearing Member or the non-Clearing Member for which the Clearing Member acts as an agent fails to deliver the payable bonds and bonds that should be pledged in full as scheduled, it shall constitute bond settlement default.

(3) If a Clearing Member fails to deliver the initial margin, the variation margin or the special margin in full as scheduled, it shall constitute margin default.

SHCH has the right to, as the case may be, take risk management measures against Clearing Members in default, including written warning, suspension of the bond CCP Clearing business, collection of penalty, forced liquidation and termination of clearing membership.

Article 28 SHCH may complete the fund settlement default management through the following procedures:

(1) In case of fund settlement default in the proprietary clearing business or client clearing business of a Clearing Member, SHCH may transfer all receivable bonds and releasable bonds on the same day of the corresponding securities custody accounts of the Clearing Member and defaulting non-Clearing Members to the default management bond account, suspend the corresponding clearing business authority of the Clearing Member, and collect penalty from the Clearing Member on a daily basis.

(2) SHCH shall, after fund default is committed, start the bank credit granting mechanism and complete fund settlement with non-defaulting parties. If SHCH does not have sufficient funds on that day, parties subject to deferred payment shall be selected according to the order previously announced and the penalty shall be paid on a daily basis.

(3) Clearing Members in default shall supplement the default funds in full prior to the prescribed date and time point. If the payable funds are partially paid up, SHCH shall freeze their receivable assets at a certain rate (greater than 100%) of the remaining fund gap.

(4) If Clearing Members in default pay the default funds and penalty in full to the designated account prior to the prescribed date and time point, SHCH shall release their corresponding frozen assets. At the same time, the corresponding funds shall be repaid to the credit granting bank or parties subject to deferred payment, and credit granting costs or default costs shall be paid. If the default funds and penalty are not fully paid up, SHCH shall start the subsequent default liquidation procedure, including but not limited to the sale of frozen assets and collateral in the market, the liquidation auction of transactions, and the compulsory settlement of positions to be closed.

(5) After the disposal of all assets to be disposed of is completed, the proceeds from the sale of the assets to be disposed of shall be used to repay the credit granting party/parties subject to deferred payment.

Article 29 SHCH shall complete the bond settlement default management through the following procedures:

(1) In case of bond settlement default in the proprietary clearing business or client clearing business of a Clearing Member, SHCH may transfer all receivable assets and bonds that should be released on the same day of the Clearing Member and defaulting non-Clearing Members to the default management account, suspend the corresponding clearing business authority of the Clearing Member, and claim liquidated damages from the Clearing Member on a daily basis.

(2) SHCH shall, after fund default is committed, start the securities lending mechanism and complete bond settlement with non-defaulting parties. If SHCH does not have sufficient bonds on that day, parties subject to deferred payment shall be selected according to the order

previously announced and the liquidated damages shall be paid on a daily basis.

(3) Clearing Members or non-Clearing Members in default shall paid up the default bonds in full prior to the prescribed date and time point. If the payable bonds are partially paid up, SHCH shall freeze their receivable assets at a certain rate (greater than 100%) of the remaining fund gap.

(4) If Clearing Members in default pay the default bonds and penalty in full to the designated account prior to the prescribed date and time point, SHCH shall release their corresponding frozen assets. At the same time, the corresponding bonds shall be repaid to the securities lending institution or parties subject to deferred payment, and credit granting costs or default costs shall be paid. If the default bonds and penalty are not fully paid up, SHCH shall start the subsequent default liquidation procedure, including but not limited to the sale of frozen assets and collateral in the market, the liquidation auction of transactions, and the compulsory settlement of positions to be closed.

(5) After the disposal of all assets to be disposed of is completed, the proceeds from the sale of the assets to be disposed of shall be used to repay the credit granting party/parties subject to deferred payment.

Article 30 In case of default on the part of a General Clearing Member, such General Clearing Member in default shall cooperate with SHCH to carry out a default investigation and provide evidence that any customer has failed to perform the contract between them; in case of the failure to provide any valid evidence, it shall be deemed that all customers have performed the contracts.

Article 31 SHCH shall complete the margin default management through the following procedures:

SHCH will collect penalty from the Clearing Member on a daily basis based on the margin gap. At the same time, SHCH has the right to, as the case may be, conduct subsequent processing through such measures as

written warning, suspension of the bond CCP Clearing business, forced liquidation, termination of clearing membership and judicial litigation.

In case of margin default on the part of a General Clearing Member when conducting clearing on others' behalf, SHCH may suspend or terminate its business qualifications.

Article 32 The relevant expenses and losses arising from the default of a Clearing Member shall be borne by the Clearing Member in default. If the Clearing Member in default fails to make payment duly, SHCH shall take actions in accordance with the provisions of Articles 44 and 45 herein.

Chapter 6 Margin Fund, Default Fund and Risk Reserves

Article 33 Before Clearing Members participate in the bond CCP Clearing business, they shall pay margins to SHCH, including the initial margin, the variation margin or the special margin. As mentioned in these Rules, margins are those used for the bond CCP Clearing business.

Article 34 SHCH shall calculate the proprietary margin requirements for the proprietary business of Clearing Members, and shall calculate the agency margin requirements for the client clearing of General Clearing Members.

Article 35 The various types of margin rates shall be determined according to the historical price fluctuations of bonds and the credentials of Clearing Members. SHCH has the right to adjust the margin rates of Clearing Members according to the business situation.

Article 36 The initial margin is the assets recognized by SHCH and paid in advance by Clearing Members in accordance with the regulations of SHCH, including cash and negotiable securities, for the purpose of making up for the possible losses arising from default management by SHCH in case of default by Clearing Members. Clearing Members shall

ensure that their margin account balance is not less than the initial margin requirements.

Article 37 The variation margin is the cash paid by Clearing Members in accordance with the regulations of SHCH, which shall be determined by SHCH according to the risk monitoring situation. Risk monitoring indicators mainly include the netting position, mark-to-market price, trade price, etc. of Clearing Members.

Article 38 Under any of the following circumstances, SHCH has the right to issue a margin call on Clearing Members:

- (1) The credit standing of Clearing Members deteriorates;
- (2) The mark-to-market losses of the netting position of the proprietary or client clearing business of Clearing Members exceed a certain proportion of their margin balance;
- (3) The netting clearing amount of the proprietary or client clearing business of Clearing Members substantially exceeds its normal level;
- (4) The margin rate is increased; or
- (5) Other circumstances deemed as necessary by SHCH.

SHCH may, through proactive deduction, debit the margins correspondingly from the fund settlement account designated by Clearing Members, and Clearing Members shall ensure that all relevant funds are made available prior to the time point specified in the margin call. In case of the failure by SHCH to debit the margins due to the insufficiency of the fund settlement account balance of Clearing Members, SHCH will claim penalty from the Clearing Members according to a certain proportion and shall have the right to take risk management measures including the suspension of the netting clearing business.

Article 39 The default funds refer to the cash paid by a Clearing Member before participating in the netting clearing business to compensate for the loss that the margins are insufficient to cover in case of the default of the Clearing Member. SHCH has the right to, according to the relevant indicator changes of the Clearing Member, correspondingly adjust the default funds that should be paid by the Clearing Member.

Article 40 SHCH shall be responsible for the routine management and use of the default funds, setting up a special account for the default funds, carrying out independent accounting, and publishing the default fund assets to the Clearing Member on a regular basis. SHCH has the right to, according to the market situation, appropriately adjust the size of the default funds.

Article 41 Each Clearing Member shall, in accordance with the regulations of SHCH, pay the initial margin and default funds in full as scheduled before participating in the netting clearing business, and shall pay the additional margin and pay up the default funds in full as scheduled according to the requirements of SHCH.

Article 42 If a Clearing Member fails to pay the initial margin and default funds in full as scheduled, SHCH will suspend its netting clearing business until they are fully paid up; if a Clearing Member fails to pay the variation margin in full as scheduled, SHCH will suspend the receipt of the netting clearing of its new transaction data until it is fully paid up. At the same time, SHCH has the right to take such measures as written warning and collection of penalty for margin default until its clearing membership is suspended.

Article 43 Risk reserves refer to the special funds withdrawn by SHCH according to a certain proportion of the operating income, which is used to make up for the significant default loss of Clearing Members and the significant risk event loss related to the financial market clearing business activities of SHCH.

Article 44 If SHCH uses the default funds paid by non-defaulting Clearing Members and the risk reserves of SHCH to make up for the default loss of Clearing Members, they will be recovered from the Clearing Members in default.

Article 45 SHCH has the right to use the risk reserves in the following order to compensate for the losses caused by the default of Clearing Members:

- (1) The margins paid by the defaulting Clearing Members;
- (2) The default funds of the bond CCP Clearing business paid by the defaulting Clearing Members;
- (3) The default funds paid by non-defaulting Clearing Members and a certain proportion of the risk reserves of SHCH;
- (4) The default funds of the relevant clearing business supplemented by non-defaulting Clearing Members in accordance with the regulations of SHCH; and
- (5) The remaining risk reserves of SHCH.

Article 46 After default management is completed, SHCH will seek recovery from and/or make claims against the defaulting Clearing Members, the income from which is used to offset the risk reserves used in the process of default management and the default funds paid by the non-defaulting Clearing Members, with any excess included in the default funds.

Article 47 SHCH shall carry out special account management on the margins, default funds and other business funds paid by Clearing Members, separate them strictly from the funds owned by SHCH and choose national commercial banks with high credit ratings as fund depositary banks to ensure the safety of funds.

Chapter 7 Management of Agency Clearing Business

Article 48 A General Clearing Member may accept the entrustment of a non-Clearing Member to engage in the netting clearing business on its behalf. If a General Clearing Member carries out the client clearing business, it shall apply to SHCH and complete the following work:

- (1) Entering into a *Client Clearing Agreement* with non-Clearing Members, the content of which shall include the essential provisions prepared by SHCH and shall not conflict with the same, and the text of which shall be submitted to SHCH for filing;
- (2) Reporting information on the non-Clearing Members they act as agents to SHCH for filing, and submitting relevant materials on the client clearing;
- (3) Carrying out agent and post management properly, and setting personnel and posts especially responsible for handling the client clearing business; and
- (4) Other matters required by SHCH.

Article 49 General Clearing Members shall be responsible for the clearing and settlement of funds and bonds of the non-Clearing Member for which they act as agent. General Clearing Members shall not default to SHCH at the excuse that the non-Clearing Members commit settlement default to them.

Article 50 General Clearing Members shall pay separate margins for the proprietary clearing business and the client clearing business. General Clearing Members shall not misappropriate the funds and margins of non-Clearing Members.

General Clearing Members shall request non-Clearing Members to pay the margins in full as scheduled. The margin assets collected by General Clearing Members from non-Clearing Members must meet the

requirements of SHCH and shall not be lower than the standards stipulated by SHCH for General Clearing Members.

Article 51 General Clearing Members shall be obliged to cooperate with SHCH in checking their client clearing business.

Article 52 General Clearing Members shall establish and improve internal management policies, keep the relevant materials and information on the client clearing business according to relevant regulations and keep confidential to the non-Clearing Member for which they act as agent.

Chapter 8 Supplementary Provisions

Article 53 SHCH shall offer paid services for the bond CCP Clearing business. Provisions on specific charges will be announced separately.

Article 54 SHCH has the right to adjust the relevant time or time point requirements and relevant ratios according to the actual business implementation and carry out the same upon announcement.

Article 55 SHCH shall be responsible for the interpretation of these Rules.

Article 56 These Rules shall come into force as of the date of promulgation.