

Notice on Further Improvement of the Settlement Business in China's Inter-bank Bond Market

CCDC [2013] No. 67

To all market participants:

In order to implement the Announcement [2013] No.8 of People's Bank of China, protect the legitimate rights and interests of market participants and promote the sound and regulated development of the market, settlement business in China's Inter-bank bond market (CIBM) shall be further improved as follows:

I. Account Opening

- i. To apply for the bond account with CCDC for transactions in CIBM, an investor shall handle the filing according to the requirements of the PBC, and obtain the filing notice on entering the inter-bank bond market before handling account opening procedures with CCDC.
- ii. The detailed procedures for an investor to apply for account opening with CCDC for transactions in CIBM shall refer to the *Guidelines of Bond Account Business (for Domestic Investors)* (CCDC [2011] No. 4).

II. Settlement

- i. From Aug. 9, 2013, the functions of inputting settlement instructions for cash bond trading, pledged repo, outright repo, bond forward and bond lending in the inter-bank bond market will become unavailable via the Client of China Bond Integrated Operation Platform (hereinafter referred to as CIOP).
- ii. Settlement participants who have opened accounts shall accomplish bond trading via the CFETS quotation system. After execution, CFETS will send the trading data to CIOP to automatically generate settlement instructions to be confirmed. Back offices of the settlement

parties shall verify and confirm the settlement instructions via CIOP Client.

CCDC will, after reviewing and matching the elements in the confirmed instructions, generate the settlement contract, based on which the settlement is processed. Settlement instructions and contracts are irrevocable and unchangeable.

iii. Trading parties shall timely confirm the instructions to be confirmed in CIOP, especially confirm the instructions generated in the afternoon as soon as possible to ensure successful settlement of the transaction before the market closing on that day.

iv. Where settlement participants fail to confirm the instructions due to system failure in CIOP, for instructions not to be settled on that day, no measures need to be taken; for instructions to be settled on that day, the participants need to fill out the *Notification of Settlement Instruction Confirmation under System Failure* (see Appendix 1) and fax the same to CCDC. CCDC will confirm the instructions on the participants' behalf based on such *Notification*.

v. Where the settlement participants fail to confirm the instructions due to technical failure of the Client connected to CIOP, the participants shall handle the emergency operations in accordance with the *Emergency Operation Procedures of China Central Depository & Clearing Co., Ltd.* (CCDC [2008] No. 92). This operation method is only used for instruction confirmation.

vi. Bond transactions in this Notice refer to cash bond trading, pledged repo, outright repo, bond forward, and bond lending.

vii. From the date of publication of this Notice, Article 15, 16 and Appendix 10 of the *Interim Guidelines on Emergency Operations under System Failure of China Central Depository & Clearing Co., Ltd.* (CCDC [2012] No. 1) will lose effect. In case of any inconsistency with CCDC's other existing business rules, *this Notice* shall prevail.

III. Non-trade Transfer

i. Settlement participants may apply for non-trade transfer in accordance with this Notice.

Non-trade transfer refers to the bond transfer without the payment of considerations, including judicial deduction, offsetting debt, liquidation, donation, bond transfer between investing entities for non-trade causes, pay-off in transaction default, etc.

ii. In case of judicial deduction or other non-trade transfer executed by a judicial institution, CCDC will process the transfer according to the legal documents issued by the judicial institution, and notify both parties to the transfer after completing the processing.

iii. In case of non-trade transfer for offsetting debt, the participant shall submit to CCDC the agreement or contract signed between the debtor and creditor as well as the application for non-trade transfer. CCDC will review the legal documents in a prudent manner before handling the transfer.

iv. In case of non-trade transfer due to liquidating, CCDC will process the transfer based on effective legal documents such as the liquidation plan issued by the bankruptcy and liquidation managing institution.

v. In case of non-trade transfer due to donation, the participant shall submit to CCDC the notarized Deed of Gift, Donee Letter or Donation Contract, and the *Application for Non-trade Transfer* (see Appendix 2). CCDC will review the relevant documents in a prudent manner before handling the transfer.

vi. In case of non-trade transfer due to merger or split of the investing entities, the applicant shall submit to CCDC the official documents of approval or revocation of the institution issued by the competent authorities, merger announcement published via the designated media or other legal documents to prove the change of the investing entities and

the *Application for Non-trade Transfer* (see Appendix 2). CCDC will handle the transfer after reviewing the relevant documents in a prudent manner.

vii. In case of non-trade transfer due to change in bond investing and accounting managing entities as required by the regulatory authorities, the applicant shall submit to CCDC the official documents on the change in the bond managing entity issued by the regulatory authorities, or other legal documents to prove the change of the investing entity, and the *Application for Non-trade Transfer* (see Appendix 2). CCDC will handle the transfer after reviewing the relevant documents in a prudent manner.

viii. In case of non-trade transfer for pay-off in default, the trading parties shall reach an agreement and submit the application to CCDC. Where the trading parties fail to reach an agreement, CCDC will process relevant operations according to effective documents issued by the arbitration authority or the people's court as follows:

For transferring the pledged bonds due to default at maturity in the pledged repo, the signed/sealed *Application for Agreement Transfer for Pay-off in Settlement Failure at Maturity of Bond Collateral* (see Appendix 3) and one copy of the Agreement on Pay-off in Default signed by both parties shall be submitted to CCDC. CCDC will handle the transfer after reviewing the relevant documents.

For transferring the bonds as margin due to default at maturity in bond lending, the signed/sealed *Application for Agreed Transfer for Pay-off in Settlement Failure at Maturity of Bond Borrowing & Lending* (see Appendix 4) and one copy of the Agreement on Pay-off in Default signed by both parties shall be submitted to CCDC. CCDC will handle the transfer after reviewing the relevant documents.

In case of settlement default in bond forward, where the settlement parties reach an agreement, they shall submit to CCDC the signed/sealed *Opinions on Default Treatment* (see Appendix 5) and one copy of the

Agreement on Pay-off in Default signed by both parties. CCDC will handle the transfer after reviewing the relevant documents. Where the settlement parties fail to reach an agreement, CCDC will conduct processing according to the final outcome of the arbitration or litigation served by either party.

In case of outright bond repo where either party fails to observe the contract, and need to transfer bonds as margin and the underlying bonds for pay-off, if an agreement is in place between the parties, CCDC will handle the transfer according to the written instructions and agreement; otherwise, CCDC will conduct the processing according to effective documents issued by the arbitrator or the people's court.

ix. When dealing with non-trade transfer, CCDC's review of the materials submitted by the participants does not mean that CCDC is responsible for the authenticity, accuracy or integrity of the material, nor does it assume any liability incurred thereby.

x. CCDC report the non-trade transfers to the PBC on a monthly basis.

This Notice shall come into force from the date of publication.

Appendix:

1. Notification of Settlement Instruction Confirmation under System Failure
2. Application for Non-trade Transfer
3. Application for Agreement Transfer for Pay-off in Settlement Failure at Maturity of Bond Collateral
4. Application for Agreed Transfer for Pay-off in Settlement Failure at Maturity of Bond Borrowing & Lending
5. Opinions on Default Treatment

China Central Depository & Clearing Co., Ltd.

Aug. 12, 2013

Appendix 1

Notification of Settlement Instruction Confirmation under System Failure

Business Voucher No.: D13

To China Central Depository & Clearing Co., Ltd.,

After consulting with the counterparty, we have reach an agreement that the following transactions shall not be confirmed, and the corresponded settlement instructions shall not be “confirmed by the third party” . Please confirm all the other settlement instructions. We ensure the authenticity, accuracy, integrity and validity of the content in this Notification regarding the settlement instructions not to be confirmed. We are aware that the corresponding transactions will not be settled without confirmation of instructions.

Authentication code: _____ (16 digits)

Name of the code generator:

Bond account number:

Sending date:(YYYY/MM/DD)[Element 1]

The number of revoked transactions is [Element 2], and the business identification No. (transaction No.) areas follows:

Business identification No. (transaction No.):	
Business identification No. (transaction No.):	
Business identification No. (transaction No.):	
Business identification No. (transaction No.):	
Business identification No. (transaction No.):	

Time of the emergency voucher: _____:_____ (hh:mm)[Element 3]

Seal or signature of emergency contact 1: Seal or signature of emergency contact 2:

ID No.:
Tel:

ID No.:
Tel:

Official seal:

Notes:

1. If there is no settlement order not to be confirmed, the number of revoked transactions should be “zero”.
2. The official seal of the institution shall be consistent with the name of the code generator. The emergency voucher shall be legible without alteration.
3. This emergency voucher has a total of three elements for authentication code generation. Element 1 has been displayed by default in the authenticator. In event of any inconsistency with the emergency voucher, please manually correct the Element 1 in the authenticator. Elements 2 to 3 shall be entered into the authenticator in order based on the information provided in the emergency voucher, and the information must be exactly the same as the that filled in the emergency voucher.
4. This service is handled by the Customer Service Department of CCDC. Fax: 010-88086355.
5. The original copy of this voucher shall be mailed to Customer Service Department, CCDC, 10 Financial Street, Xicheng District, Beijing 100033.

Appendix 2

Application for Non-trade Transfer

To China Central Depository & Clearing Co., Ltd.:

We hereby for non-trade transfer for the reason that _____. Please
handle the transfer according to the following information.

Name of the transferor:		Bond account No..	
Name of the transferee:		Bond account No.	
List of Bonds	Bond name	Bond code	Face Value (in ¥ 10,000)
List of relevant documents	Transferor: 1. 2.	Transferee: 1. 2.	
Remarks			

Official seal of the transferor:

Official seal of the transferee:

Date:(YYYY/MM/DD)Date: (YYYY/MM/DD)

Appendix 3

Application for Agreed Transfer for Pay-off in Settlement Failure at Maturity of Bond Collateral

To China Central Depository & Clearing Co., Ltd.:

The settlement fails for the _____ business under the settlement contract No. _____ for the reason that _____. According to the relevant agreement between the two parties, please handle the transfer of the bond collateral and/or underlying bonds according to the following information .

Name of the pledgor:				Bond account No.			
Name of the pledgee:				Bond account No.			
	Bond Name	Bond Code	Face value under pledge (in ¥ 10,000)	Face value to be transferred (in ¥ 10,000)	Bond account of the Transferor	Bond account of the Transferee	
Require ments for bond collateral transfer							
Remarks							
Signatures/Seals of both parties	Operator:			Operator:			

Official seal

Date: (YYYY/MM/DD)

Appendix 4

Application for Agreement Transfer for Pay-off in Settlement Failure at Maturity of Bond Borrowing & Lending

Business Voucher No.: **E28**

To China Central Depository & Clearing Co., Ltd.:

The settlement fails for the bond borrowing & lending business under the settlement contract No. _____ **[Element 1]** for the reason that _____. According to the relevant agreement between the two parties, please handle the transfer of the bond collateral and/or underlying bonds according to the following information

Name of the code generator:				Bond account No.		
Name of the bond borrower				Bond account No. [Element 2]		
Name of the bond lender				Bond account No. [Element 3]		
	Bond Name	Bond Code	Face value pledged (borrowed) (in ¥ 10,000)	Face value to be transferred (in ¥ 10,000)	Bond account of the Transferor	Bond account of the Transferee
Requirements for bond collateral transfer						
Transfer of the Underlying Bonds		[Element 4]		[Element 5]		
Authentication code						
Signatures/seal of both parties	Operator:			Operator:		

Date: (YYYY/MM/DD)

Note: This Application is only applicable to transfer agreed by both parties for pay-off, and shall be accompanied by the agreement on pay-off in default signed by both parties.

Appendix 5

Opinions on Default Treatment

To China Central Depository & Clearing Co., Ltd.:

Default occurs in our bond forward transaction under the transaction contract No. _____. We hereby make an agreement on the following treatment of the default oft:

Please help deal with the relevant matters.

Name of the bond transferee:

Signature of the operator:

Signature of the reviewer:

Date: (YYYY/MM/DD) Date: (YYYY/MM/DD)

Seal: Seal:

Tel: Tel:

Official seal of the relevant business department: (consistent with the reserved seal)

Authentication code:□□□□

Name of the bond transferor:

Signature of the operator:

Signature of the reviewer:

Date: (YYYY/MM/DD) Date: (YYYY/MM/DD)

Seal: Seal:

Tel: Tel:

Official seal of the relevant business department: (consistent with the reserved seal)

Authentication code:□□□□

Notice: Content in this application shall be printed expect the seal and signature. The applicant is liable for any unclear hand-writing.