

# **Administrative Measures for the Registration, Depository and Settlement of Bonds in China's Inter-bank Bond Market**

PBC Decree [2009] No. 1

To regulate the registration, depository and settlement of bonds in CIBM, protect the legitimate rights and interests of investors and promote the healthy development of the bond market, the People's Bank of China formulated the *Administrative Measures for the Registration, Depository and Settlement of Bonds in China's Inter-bank Bond Market* (hereinafter referred to as the “Measures”), which was approved at the 37<sup>th</sup> governor's executive meeting on December 6, 2008. The Measures are hereby promulgated and will come into force on May 4, 2009.

Zhou Xiaochuan  
Governor of the People's Bank of China  
March 26, 2009

# **Administrative Measures for the Registration, Depository and Settlement of Bonds in China's Inter-bank Bond Market**

## **Chapter I General Provisions**

**Article 1** To regulate the registration, depository and settlement of bonds in China's Inter-bank bond market (CIBM), protect the legitimate rights and interests of investors, maintain the normal order of the registration, depository and settlement of bonds and promote the healthy development of the bond market, the Measures are formulated in accordance with the *Law of the People's Republic of China on the People's Bank of China* and other relevant laws and regulations.

**Article 2** The Measures shall apply to the registration, depository and settlement of fixed-income securities (hereinafter referred to as “bonds”) in CIBM.

The registration, depository and settlement of book-entry China government bonds (CGB) trading at commercial bank counters shall be governed by the *Administrative Measures for the Trading of Book-entry China Government Bonds at Commercial Bank Counters*.

**Article 3** The registration, depository and settlement of bonds shall be processed in a safe and efficient manner and relevant operation and management approaches shall be adopted nationally.

**Article 4** The People's Bank of China (PBC) shall supervise and administer the bond registration, depository and settlement institution (“the institution”) and bond registration, depository and settlement in CIBM.

## **Chapter II Bond Registration, Depository and Settlement Institution**

**Article 5** The institution in the Measures refers to a legal entity that specializes in bond registration, depository and settlement in CIBM.

China Central Depository & Clearing Co., Ltd. (CCDC) is the institution designated by the People's Bank of China.

**Article 6** The institution shall assume the function of centralized bond registration, direct holding and settlement. Commercial banks approved by the PBC for the trading of book-entry CGBs at commercial bank counters shall hold indirectly book-entry CGBs traded at commercial bank counters.

**Article 7** The institution shall perform the following functions in the bond registration, depository and settlement business:

- (1) Establishment and management of bond accounts,
- (2) Bond registration,
- (3) Bond depository,
- (4) Bond settlement,
- (5) Agency services for the payment of bond principal, interest and other relevant income,
- (6) General depository for bonds traded across markets,
- (7) Management services for bonds and other instruments pledged as collateral,
- (8) Exercise of rights against bond issuers on behalf of bondholders,
- (9) Information, inquiry, consulting and training services related to bond registration, depository and settlement,
- (10) Supervision of the indirect holding of commercial banks handling counter trading , and
- (11) Other functions prescribed by the PBC.

**Article 8** The institution shall take the following measures to guarantee normal business operations:

- (1) Equip itself with systems and devices dedicated to bond registration, depository and settlement, and strengthen technologies to ensure data security;
- (2) Set up an emergency response mechanism against system failures and a backup mechanism for disaster recovery;
- (3) Improve corporate governance, establish improved internal control and risk management mechanisms, check and perform internal auditing on bond registration, depository and settlement business on a regular basis; and
- (4) Develop business rules and operational procedures for bond registration, depository and settlement and strengthen the management of key business positions.

**Article 9** The institution shall report the following issues to the PBC for approval:

- (1) The formulation and amendment of articles of association, and such significant issues as merger, acquisition, reorganization and split-up,
- (2) The formulation and amendment of the internal control rules, risk management rules, business rules and contingency plan,
- (3) The launch of new business, and any change in the operation approaches of the registration, depository and settlement business,
- (4) Cooperation with other domestic and overseas market intermediaries in bond registration, depository and settlement, and
- (5) Other issues specified by the PBC.

**Article 10** The institution shall report the following issues to the PBC for

registration:

- (1) The formulation and amendment of medium- and long-term business development plans;
- (2) Any change in the senior management; and
- (3) Other issues specified by the PBC.

**Article 11** The institution shall properly keep the original vouchers, accounting data and other relevant documents and materials about the registration, depository and settlement of bonds for at least 20 years upon maturity of bonds.

**Article 12** The institution can develop and regularly publish information on the registration, depository and settlement of bonds according to the business development needs. The institution shall observe the relevant provisions of the PBC when providing the foregoing information for any other organization or individual.

**Article 13** The institution is obliged to keep confidential the bondholders' data and materials about the registration, custody and settlement of their bonds, except in the following circumstances:

- (1) A bondholder inquires about the accounting data of the bonds held by the bondholder itself;
- (2) A person entrusted by a bondholder inquires, by presenting a written power of attorney issued by the bondholder, about the accounting data of the bonds held by the bondholder;
- (3) The people's court, people's procuratorate or public security authority makes inquiries or takes evidence according to the statutory procedures and conditions; and
- (4) Other circumstances prescribed by law.

The institution shall provide bondholders with convenience for timely access to their bond account records.

**Article 14** The institution shall make public the charging items and fee rates related to bond registration, depository and settlement.

When prescribing or adjusting the charging items or fee rates, the institution shall seek opinions of the National Association of Financial Market Institutional Investors (NAFMII), bond issuers and bondholders and report the opinions so solicited to the PBC.

**Article 15** The institution shall enter into a relevant service agreement with the bond issuer and the bondholder to specify the rights and obligations of both parties.

When formulating relevant service agreement, the institution shall seek opinions of the NAFMII, bond issuers and bondholders and report the opinions so solicited to the PBC.

**Article 16** The institution shall conduct day-to-day monitoring of bond registration, depository and settlement activities and promptly report any detected abnormalities, major business or technology risk and major violation of laws and regulations to the PBC and handle them properly, with a carbon copy to the NAFMII.

The institution shall cooperate with the National Inter-bank Funding Center to establish a first-line monitoring system for the bond market.

**Article 17** The institution shall submit data and statistical information on bond issuance, registration, depository and settlement in the previous month to the PBC within the first five working days of each month and submit an annual report on bond registration, depository and settlement to the PBC within 20 working days following the end of each year.

The NAFMII, the institution and National Inter-bank Funding Center shall establish an information and data exchange mechanism in

accordance with relevant PBC regulations.

**Article 18** The institution shall publicize statistical information on bond registration, depository and settlement in a timely manner in accordance with relevant regulations, but shall not disclose any private information.

### **Chapter III Bond Account**

**Article 19** Bond account refers to an electronic bookkeeping account opened with the institution to record the type and amount of bonds held by the bondholder and the changes thereof.

**Article 20** The bondholder holds bonds through the bond account. The amount of bonds held by the bondholder shall be the balance of bonds recorded in the bond account. Where the bondholder disagrees with the bond account records, the institution shall conduct a timely check and make a reply. The institution shall assume legal liability in the event that the bondholder suffers losses arising from data errors caused by fault or negligence on the part of the institution.

**Article 21** The institution shall develop rules and regulations on bond account management under the principles of classified settings and centralized management.

**Article 22** To open a bond account, the bondholder shall submit an application to the institution in accordance with rules of the PBC and ensure all the application materials submitted are true, accurate and complete.

The bond account shall be registered on a real-name basis and cannot be lent, let or transferred.

**Article 23** There are two types of bond account, proprietary account and general agent account.

**Article 24** An investor is entitled to opening one proprietary account only,

unless otherwise stipulated by PBC.

An investor with legal person status shall open its proprietary account in the name of the legal person. A commercial bank branch authorized by the legal person may open its proprietary account in the name of the branch. Unincorporated institutional investors such as securities investment funds may open separate proprietary accounts in accordance with the PBC rules.

**Article 25** Commercial banks handling counter trading or securities registration, depository and settlement institutions for other trading venues may open a general agent account with the institution for the recording of the balance of all the bonds under their indirect holding.

The total amount of bonds held in custody confirmed for the secondary bond account holder by commercial banks handling counter trading or securities registration, depository and settlement institutions for other trading venues shall be the same as the balance of bonds registered in their general agent accounts. The bonds kept under the general agent account shall be strictly separated from proprietary bonds.

**Article 26** The bondholder may apply for closing its account. Before closing the account, the institution shall confirm the account has no balance of bonds in depository and no outstanding debts such as bonds to be repurchased, or bonds that have been pledged or frozen.

## **Chapter IV Bond Registration**

**Article 27** Bond registration refers to the activity whereby the institution confirm the fact that the bondholder holds bonds through bookkeeping in accordance with the law.

**Article 28** After a bond is issued, the bond issuer shall provide the institution with a hard copy of the bond issuance approval, authorization and registration documents issued by relevant organizations, issuance documents and materials. The institution shall conduct timely bond



registration upon confirmation of receipt of proceeds from bond issuance. For secondary bond account, commercial banks handling counter trading or securities registration, depository and settlement institutions for other trading venues shall conduct bond registration for secondary bond account holders.

**Article 29** Before maturity of bonds, where new bonds are derived from the contract by the bond issuer or legitimate requirements of the bondholder, the institution shall conduct registration of derived bonds according to issuance documents or bondholder's authorization.

**Article 30** Where the balance of the bond account changes due to trade settlement, non-trade transfer or exercise of options, the institution shall conduct registration of those changes. In the case of secondary bond accounts, commercial banks handling counter trading and securities registration, depository and settlement institutions for other trading venues shall conduct registration of those changes for secondary bond account holders.

Where the bond issuer is changed due to split-up, merger or dissolution, the debt successor shall promptly submit relevant supporting documents to the institution that shall conduct timely registration of the change in accordance with the law.

**Article 31** The institution may provide the bond pledge registration service to the bondholder and freeze relevant bonds, or freeze bonds in accordance with laws and regulations. The institution shall mark the frozen bonds in the account to indicate that the rights associated with the bond are restricted.

**Article 32** Where the creditor-debtor relationship is terminated due to redemption upon maturity, early redemption or exercise of options, the institution shall conduct bond deregistration. In the case of secondary bond accounts, commercial banks handling counter trading or securities registration, depository and settlement institutions for other trading

venues shall conduct timely deregistration of the balance of bonds in custody.

For bonds that remain frozen upon maturity, the institution shall withhold the principal and interest and settle accordingly after the relevant parties provide valid legal documents.

## **Chapter V     Bond Depository**

**Article 33** Depository of bonds refers to centralized safekeeping of bonds held by bondholders, as well as management and maintenance of rights and interests related to the bonds for the bondholders.

**Article 34** The bondholders shall entrust the institution to safekeep the bonds they hold.

The bond depository relationship shall become effective upon the opening of the bondholder's bond account with the institution and expire upon closure of the bond account.

**Article 35** The institution shall take secure and effective management measures to ensure the statements of bondholders' accounts are true, accurate, complete and secure. The institution have no ownership of any nature in, and shall not embezzle, any bonds under their depository.

Where the institution goes bankrupt, or is dissolved, split up, merged or canceled, bondholders' bonds and other assets under depository of the institution are exempt from asset liquidation.

**Article 36** The bondholder that trades across markets may transfer the custody of its bonds across market to corresponding depository. The institutions shall provide timely custody transfer services to the bondholder.

**Article 37** The bond issuer shall, at the time of interest payment, principal redemption or other income distribution, make timely and full

payments to the institution that shall process accordingly after receiving such payments. Where the bond issuer fails to make the aforementioned payments, the institution may delay processing and the bond issuer shall provide timely explanations to market participants.

## **Chapter VI Bond Settlement**

**Article 38** Settlement of bonds refers to transfer of bonds upon confirmation of settlement instructions.

**Article 39** The investor or its agent shall give bond settlement instructions promptly pursuant to the bond trading contract and ensure the bond account has sufficient balance available for settlement.

**Article 40** The institution shall specify the form and routing method of settlement instructions and take effective identification measures.

The institution shall conduct bond settlement pursuant to the valid instruction for the investor or its agent, and the bond settlement is irrevocable once completed.

**Article 41** Settlement in the Inter-bank bond market may either be gross or net settlement. Net settlement rules will be promulgated separately by the PBC.

**Article 42** Bond and cash settlement may be in the form of delivery versus payment (DVP), payment after delivery (PAD), delivery after payment (DAP) or free of payment (FOP).

DVP refers to the settlement mode where bond delivery and cash payment are made simultaneously and are conditional on each other.

PAD refers to the settlement mode where cash payment is made after bond delivery.

DAP refers to the settlement mode where bond delivery is made after cash payment.

FOP refers to the settlement mode where bond delivery and cash payment are independent from each other.

Settlement participants shall be responsible for the bond and cash settlement risks.

**Article 43** Cash and bonds pending payment in the course of bond settlement and the collateral involved in such settlement shall be used for that settlement only and shall not be subject to any enforcement.

**Article 44** The institution may facilitate bond lending and borrowing to ensure successful bond settlement. Relevant rules will be promulgated separately by the PBC.

**Article 45** The ownership transfer of bonds subject to trading restrictions shall comply with relevant laws, regulations and requirements of competent authorities.

**Article 46** In the case of non-trading ownership transfer with respect to ordered deduction, inheritance, debt payment and bestowal, the institution shall require the parties involved to submit legal and valid legal documents.

## **Chapter VII Legal Responsibilities**

**Article 47** The PBC will impose penalties in accordance with the *Law of the People's Republic of China on the People's Bank of China* upon the institution or its staff that fall in any of the following circumstances:

- (1) Negligence in work that causes serious losses to bond issuers or holders;
- (2) Embezzlement of bonds or funds that belong to bondholders;
- (3) Tampering with bond account data;
- (4) Leaking information of the bondholder's account; or

(5) Other acts that violate the Measures.

Those that violate the Measures and constitute a crime shall be held criminally responsible.

**Article 48** The bond issuer or holder that violates the Measures will be punished by the PBC in accordance with the *Law of the People's Republic of China on the People's Bank of China* and, if such violation constitutes a crime, be held criminally responsible.

### **Chapter VIII Supplementary Provisions**

**Article 49** The power to interpret the Measures rests with the People's Bank of China.

The Measures shall become effective on May 4, 2009.