

# **Announcement on the Promulgation of Shanghai Clearing House Rules on Registration, Custody, Clearing and Settlement of Bonds**

SHCH [2014] No.13

In order to regulate bonds registration, custody, clearing and settlement business, protect the legitimate rights and interests of all market participants and promote the sound development of the inter-bank bond market, Shanghai Clearing House has consolidated business rules for bond products, formulated the *Bond Registration, Custody, Clearing and Settlement Rules of Shanghai Clearing House* and approved by the People's Bank of China, hereby promulgates this rule. In case of any conflicts between the former business rules for registration, custody, clearing and settlement of bond products, this rule shall prevail.

Appendix: Shanghai Clearing House Rules on Registration, Custody, Clearing and Settlement of Bonds

Shanghai Clearing House  
September 1, 2014

## Appendix

### **Shanghai Clearing House** **Rules on Registration, Custody, Clearing and Settlement of Bonds**

#### **Chapter 1 General Provisions**

**Article 1** For the purpose of regulating registration, custody, clearing and settlement of bonds in Inter-Bank bond market, protecting legitimate rights and interests of various market participants, and promoting healthy development of Inter-Bank bond market, these Rules have been formulated in accordance with the *Measures for the Administration of Bond Transactions in China's Inter-bank Bond Market* (People's Bank of China Decree [2000] No. 2), *Administration Measures on Registration, Custody and Settlement of Bonds in Inter-Bank Bond Market* (People's Bank of China Decree [2009] No. 1), *Rules on Supervision and Administration of Businesses in Shanghai Clearing House* (People's Bank of China [2011] No. 73) and other relevant rules.

**Article 2** Shanghai Clearing House (hereinafter referred to as SHCH) is the institution for bonds registration, custody, clearing and settlement designated by The People's Bank of China (PBC), undertaking the functions of registration and custody for non-financial corporate debt-financing instruments and other bonds designated by PBC, offering services like registration, information disclosure and client interest paying and cashing to bonds issuers, providing custody, settlement and bonds valuation services for bondholders, offering netting clearing and risk management to clearing members, and providing collateral management and other relevant services for market participants.

**Article 3** SHCH offers registration, custody, interest paying and cashing, clearing, settlement and other relevant businesses for bonds through electronic book-keeping method.

**Article 4** These Rules are applicable to registration, custody, gross case-by-case clearing and settlement businesses for various bonds of which registration and custody are managed by SHCH.

When conducting bonds registration, custody, clearing and settlement in SHCH, market participants shall conform to relevant laws, regulations, sectorial rules, these Rules and relevant business rules of SHCH.

## **Chapter 2 Bond Account and Settlement Member**

**Article 5** Institutional investors meeting Inter-Bank bond market access criteria, including domestic corporate and non-corporate institutional investors, and foreign institutional investors having been approved by PBC, may open bond accounts in SHCH.

Bond account is an electronic book-keeping account opened by an investor in SHCH, and used to record the types, quantities and changes of bonds and other fixed income products registered in and under the custody of SHCH. Bondholders hold bonds through bond accounts.

**Article 6** An investor is only permitted to open one bond account, unless otherwise stipulated by regulators. Corporate institutions shall open bond accounts in the name of such corporate. Commercial bank branches authorized by corresponding corporate may open bond accounts in the name of such branches. Non-corporate products, such as securities investment funds, shall open bond accounts separately according to rules made by regulators.

**Article 7** Investors meeting Inter-Bank bond market access criteria, after having opened bond accounts in SHCH and signed Settlement Member Service Agreement, will become SHCH settlement members.

**Article 8** SHCH settlement members are divided into direct settlement members and indirect settlement members. The former are institutional investors who open bond accounts in their own names and directly conduct settlement businesses. The latter are institutional investors who

open bond accounts in their own names, but conduct settlement business through settlement agents.

Settlement agents shall sign Settlement Agency Agreement with indirect settlement members acting as their clients, according to rules related to bond agency settlement made by PBC, thereby conducting registration, custody, gross case-by-case real-time clearing and settlement of bonds on behalf of indirect settlement members.

**Article 9** To enter Inter-Bank bond market, investors shall first handle relevant formalities according to relevant rules on access recordation administration made by PBC, and then apply to SHCH for opening bond accounts.

**Article 10** When applying to SHCH for opening bond accounts, investors shall sign Settlement Member Service Agreement with SHCH and submit materials for opening such account according to relevant rules of SHCH. Account opening for direct settlement members of corporate type shall be directly applied and conducted by investors. Account opening for direct settlement members of non-corporate type shall be conducted by custodians, and such settlement members shall also provide relevant supporting documents of assets managers. Indirect settlement members shall entrust account opening to settlement agents. Investors and their agents shall guarantee that materials submitted for account opening are true, accurate and complete.

**Article 11** Name of bond account shall the same as that included in Recordation Notice or Recordation Receipt

**Article 12** Direct settlement members shall install SHCH Business System Client Terminal (hereinafter referred to as Terminal) equipped with electronic identity authentication mechanism and conduct business operations through such Terminal.

**Article 13** Direct settlement members shall submit application and relevant materials to SHCH for Terminal authorization and SHCH then

will register authorized Terminal persons into system. After such registration, authorized persons of direct settlement members may register and assign authorizations to operators through Terminal.

**Article 14** Direct settlement members shall have staff for risk control, clearing and settlement, and arrange relevant staff to attend business training organized by SHCH. Such staff will be engaged in relevant works only after having obtained corresponding qualifications. Relevant business staff shall attend subsequent training and periodical annual evaluations according to requirements of SHCH.

**Article 15** Settlement agents shall execute instructions from indirect settlement members by strictly following written authorizations from such indirect settlement members or arrangement provided by Settlement Agency Agreements. SHCH shall complete settlements for transactions of indirect settlement members according to instructions from settlement agents.

Indirect settlement members may inquire about balance and change of their bond accounts through their settlement agents or relevant Inquiry Systems of SHCH, and have the right to require relevant settlement reports and balance statements from their settlement agents.

**Article 16** After opening bond accounts, where investors change important information in accordance with applicable laws, such as name, investors shall conduct relevant formalities according to relevant rules on access recordation administration of PBC, and after such recordation, shall apply to SHCH for bond account change.

After bond account name is changed, claims and debts registered in original bond account shall be succeeded by investors with the new names. Such investors with new names shall sign Settlement Member Service Agreement again with SHCH.

In cases where investors intend to change basic information about bond accounts, they shall submit relevant materials to SHCH and complete change formalities.

**Article 17** Investors may apply for canceling bond accounts. When handling such cancellation application, after having confirmed that there are no balance of bonds or other products under the custody of SHCH and no unsettled debts and claims, etc in such accounts, and having confirmed that such investors have cleared all fees payable to SHCH, then SHCH will conduct cancellation formalities and also cancel relevant authorizations for Terminal used by such investors.

After domestic non-corporate products expire, assets managers and custodians shall timely conduct accounts cancellation formalities for such products. After foreign non-corporate products expire, settlement agents shall timely conduct accounts cancellation formalities for such products.

In cases where no assets manager, or custodian, or settlement agent completes account cancellation formalities within one month after non-corporate product expires, SHCH will automatically cancel the account for such product after having confirmed that there is neither balance of bonds nor unsettled fees in such account. If such bond account still has custody balance, SHCH will restrict the operations on such account; in this case, except for fulfilling outstanding settlement contracts, selling or transferring custody of held bonds, no other operations are permitted.

**Article 18** Where investors have not conducted any business for two consecutive years, or delay payment of registration and settlement fees for a long time, SHCH may directly cancel their bond accounts after having confirmed that there is no balance in such accounts. Debts of such investors whose bond accounts are so canceled, including fees payable, to SHCH will not be eliminated due to such cancellation.

### **Chapter 3 Bond Registration**

**Article 19** Bond registration refers to the behavior that SHCH confirms the fact that holder holds certain bonds according to laws in book-keeping manner. The minimum unit for SHCH's book-keeping system to record bond quantity is RMB 0.01. Bond registration includes initial registration, change registration and cancellation registration.

**Article 20** Relevant information recorded when SHCH conducts bond registration includes but not limited to, bond account name, custody account, bond name, quantity and bond-holding status, etc.

**Article 21** When applying for bond registration for the first time, issuers shall apply to SHCH for opening issuer accounts used to record name of issued bonds, debt balance generated by issuing such bonds and change of such balance, etc. After having opened issuer accounts before the first issuance, issuers do not need to open issuer accounts again for subsequent issuing.

Multiple issuers issuing collective bonds shall open an issuer account in the name of such bonds.

**Article 22** When applying to SHCH for opening issuer accounts, issuers shall sign Issuer Service Agreements with SHCH, and submit account opening materials according to relevant rules of SHCH. Issuers shall guarantee that such submitted materials are true, accurate and complete.

## **Section 1 Initial Registration**

**Article 23** Bond issuer may issue bonds through public offering or private placement by the means of book building, system bidding or other ways approved by PBC. On the basis of application from issuer, List of Investors that record investors' names and quantity of bonds held by each investor, and distribution results provided by issuer, SHCH will conduct initial registration.

**Article 24** When applying for initial registration, issuer shall submit the following materials to SHCH before time points required by SHCH.

- (1) Relevant permits or documentary evidence for bonds issuing (unless otherwise provided by relevant rules);
- (2) Announcement on Bonds Issuance, Prospectus or other relevant issuing documents (for public offering) or Private Placement Agreement (for private placement);
- (3) Application for Issuance Registration;
- (4) Elements List for Registration;
- (5) Underwriting/Subscription Amount List;
- (6) Confirmation Letter for the Payment of Bond Issuance Fund;
- (7) Announcement of Issuance Result;
- (8) Other materials required by SHCH.

**Article 25** SHCH shall review the aforesaid materials and allocate code and short name for bonds issued in each series. If bonds of the same series have more than one class, SHCH shall allocate an individual code and short name for each class.

**Article 26** After reviewing the Elements List for Registration submitted by issuer, SHCH will conduct bonds registration.

**Article 27.** Where book-building method is used for issuance, SHCH will register underwriting amount subject to Underwriting/Subscription Amount List submitted by issuer; where system bidding method is used for issuance, SHCH will register underwriting amount subject to system bidding result confirmed by issuer.

**Article 28** In cases where underwriter needs to distribute bonds through SHCH, such underwriter and relevant investors shall complete distribution through SHCH Terminal within required distribution period.



Then, SHCH will complete settlement and registration for distribution amount according to effective and legitimate distribution instructions.

**Article 29** Issuer shall submit Confirmation Letter for the Payment of Issuance Fund to SHCH before 17:00 (UTC+8) on payment date. On the basis of such Confirmation Letter, SHCH will conduct initial registration and issue Certificate for Initial Registration.

Where issuer submits relevant materials after the time point required by SHCH, SHCH may conduct relevant formalities on the next business day.

**Article 30** Regarding unpaid amount of issuance funds specified by issuer, SHCH will take relevant actions in accordance with relevant rules of competent authorities, Announcement of Bonds Issuance, agreements between issuer and underwriters, Private Placement Agreement and application from issuer, etc.

Issuer shall submit Announcement of Issuance Result timely to SHCH after completing issuance.

**Article 31** After initial registration is completed, based on time points stipulated by competent authorities, the issued bonds could be traded and circulated, or issuer may apply for trading and circulation in accordance with relevant rules of competent authorities. Where applying for trading and circulation in accordance with relevant rules of competent authorities, issuer shall timely apply for conducting formalities on trading and circulation to SHCH after bonds of this period are approved to be traded and circulated.

**Article 32** Where no application for trading and circulation is needed, SHCH will disclose circulation elements (for public offering) of such bonds to market on the same day for completion of initial registration, and timely notify National Inter-Bank Funding Center. Where applying for trading and circulation in accordance with relevant rules of competent authorities, SHCH will disclose circulation elements of such bonds to market according to relevant documents of competent authorities and

application from issuer, and timely notify National Inter-Bank Funding Center.

**Article 33** Where errors in bonds elements and Investors List are caused by wrong materials submitted by bonds issuer, issuer shall assume relevant legal responsibilities and SHCH will assume no responsibility. Where issuer applies for correcting initial registration result, such issuer shall submit evidences accepted by competent authorities or SHCH to complete correction formalities.

## **Section 2 Registration Change**

**Article 34** During bond trading and circulation period, if bond quantity is changed due to transaction settlement, non-trading transfer or option exercising, etc, or status of bond holding is changed due to pledge or freezing, SHCH will conduct bond change registration on the basis of effective instructions.

**Article 35** If quantity of bonds held by investors is changed due to transactions such as bonds selling and bonds buying, SHCH will conduct bond change registration at the time point of settlement completion on the basis of clearing and settlement result of bond transactions.

**Article 36** If quantity of bonds held by investor is changed due to exercising option, SHCH will conduct bond change registration resulted from installment, early cashing, exercising the redemption option by issuer, etc. according to arrangement of issuing document and effective instructions from issuer. SHCH will conduct change registration resulted from put option by investor, according to arrangements in issuing document and investor' effective application confirmed by issuer.

**Article 37** Where quantity of bonds held by investor is changed due to bonds transfer arising out of judicial requirement, inheritance, debts service and donation, etc, SHCH will conduct bond change registration according to effective and legitimate instructions.

(1) For bonds transfer arising out of judicial requirement, SHCH will transfer required bonds from relevant bond account to another assigned account, according to effective documents made by authorized bodies and after executing settlement on assigned execution date;

(2) In the case of inheritance, debts service or donation, etc, relevant party shall provide effective and legitimate documents; SHCH will conduct bond change registration after having finished formal examination in accordance with laws and regulations.

**Article 38** Where investor's bonds status is changed due to transactions such as pledged repo, SHCH shall, during bilateral case-by-case gross settlement process, according to effective settlement instructions from two settlement parties, restrict registration for relevant bonds of pledgor's account provided that bonds held by pledgor are sufficient.

**Article 39** Where bond collateral is required and agreed in transactions such as outright repo and bond forward transaction, during bilateral case-by-case gross settlement process, according to effective settlement instructions from two settlement parties, SHCH will restrict registrations for relevant bonds in account of collateral provider provided that pledgor's bonds are sufficient.

**Article 40** Where investor needs to submit performance collateral to SHCH for participating in CCP clearing or other relevant businesses, SHCH will restrict registration for relevant bonds in such investor's bond account in accordance with investor's instruction, authorization, or relevant clearing agreements and business rules.

**Article 41** Where judicial body requires judicial freezing of bonds, SHCH will freeze relevant bonds in relevant bond account, according to applicable laws and regulations ,relevant certificates and effective legal documents issued by judicial body. SHCH will unfreeze such bonds in accordance with effective documents issued by judicial body. After freezing or unfreezing, SHCH will notify result to relevant investor.

**Article 42** When handling bonds pledge, investor shall process bond pledge registration according to relevant rules on bond pledge made by SHCH. Bonds pledge contract shall become effective after two parties to the pledge complete pledge registration. Once being pledged, the same bonds shall not be pledged again before release or cancellation. Bonds frozen judicially, pledged for repo or submitted to SHCH as collateral shall not be pledged.

### **Section 3 Cancellation Registration**

**Article 43** Where part or all of claims and debts on bonds are terminated, SHCH will cancel part or all of such bonds, including but not limiting to maturity cashing, installment, early cashing or exercising option, etc.

**Article 44** Where termination of all claims and debts caused by maturity cashing, full amount early cashing or exercising option, SHCH will cancel the registration of such bonds on the basis of relevant business results.

**Article 45** Where part of debts and claims are terminated due to partial early cashing, installment or exercising option, SHCH will conduct change registration for bond elements, or balance of bonds in issuer's account and corresponding bond accounts, and at the same time, conduct cancellation registration for corresponding partial debts and claims.

## **Chapter 4 Services Related to Registration**

### **Section 1 Information Disclosure**

**Article 46** SHCH website ([www.shclearing.com](http://www.shclearing.com)) is the information disclosure platform designated by PBC. Information associated with initial registration for bond issuance, interest paying and cashing, and other information during bonds duration, shall be disclosed to market or investors under private placement scope through SHCH website.

**Article 47** During initial registration for bond issuance, issuer shall disclose Announcement on Bond Issuance, Prospectus and other relevant issuing documents or Private Placement Agreement no later than required time point,

Where issuer applies for bonds trading and circulation according to relevant rules of competent authorities, after the approval of such competent authorities, issuer shall disclose contents of relevant approved documents, and announcement on trading and circulation, etc no later than required time point.

**Article 48** Within bond duration, issuer shall disclose financial data, major events and other relevant information about issuer no later than required time point. Intermediary institutions including rating company, accounting firm, and law firm shall timely disclose Bond Credit Rating Report among and other relevant information.

Before paying interest and cashing, issuer shall disclose Announcement on Interest Paying and Cashing of Bonds, and other relevant information no later than required time point.

**Article 49** Detailed requirements and relevant time points for information disclosure will be subject to relevant rules of competent authorities and relevant detailed business rules of SHCH.

## **Section 2 Bond Interest Payment**

**Article 50** SHCH offers interest paying and cashing services on behalf of bond issuer. Issuer shall specify form of interest paying and cashing in Bond Issuing Documents or Private Placement Agreement.

**Article 51** SHCH will determine Bondholders List, and calculate interest and cash funds receivable for each bondholder on designated record date.

**Article 52** Issuer shall transfer full amount funds for interest payment and cashing before 15:00 (UTC+8) on the business day before interest

payment and cashing date, to bank account assigned by SHCH, on the basis of arrangements in Issuer Service Agreement. If issuer timely pays all required funds, SHCH will transfer funds receivable for interest and cashing to bank account assigned by bondholder within required time, and issue written certificate for completion of interest payment and cashing.

Where payment date is an official holiday, payment will be delayed to the next business day.

**Article 53** Where issuer fails to transfer funds for interest paying and cashing in full-amount before the time point required by SHCH, SHCH shall report to corresponding competent authorities. Where SHCH still does not receive funds transferred from issuer for interest paying and cashing by the end of payment date, SHCH will disclose the fact that such issuer does not transfer full-amount funds timely to market or investors under private placement scope.

**Article 54** Where bondholder fails to receive relevant funds because issuer does not transfer full amount funds for interest paying and cashing, so caused all responsibilities shall be assumed by such issuer. Issuer shall timely make announcement to market through relevant media or notify investors under private placement scope in appropriate way.

**Article 55** For bonds under frozen status at the end of interest payment record day, SHCH will reserve transferring funds for interest payment, and maintain interest corresponding to such bonds in SHCH temporarily. When such bonds are unfrozen, SHCH will conduct funds transfer according to instructions from relevant parties.

**Article 56** Where part of debts and claims are ended due to partial early cashing, bond installment (not the final installment) or exercising option, for bonds under frozen status at the end of cashing record day, SHCH will suspend transferring funds for cashing, and reserve the principal

corresponding to such bonds in SHCH. After such bonds are unfrozen, SHCH will transfer funds according to instructions from relevant parties.

**Article 57** Where all of debts and claims are ended due to maturity cashing, full amount early cashing, and final installment or exercising option, for bonds under frozen or pledged status at the end of cashing record day, SHCH will suspend transferring funds for cashing and reserve principal corresponding to such bonds in SHCH. After such bonds are unfrozen or released, SHCH will transfer funds according to instructions from relevant parties.

### **Section 3 Services for Bondholders**

**Article 58** SHCH conducts collective custody for bonds held by investors, and manages and maintains relevant rights and interests on such bonds.

**Article 59.** Bonds held by investor shall be subject to bonds balance recorded in its bond account. Investor may inquire of SHCH about bonds held in its bond account and corresponding changes. Settlement agent may inquire about bonds and bonds changes in the bond account held by indirect settlement member which it served as an agent.

Where investor raises objection to the balance recorded in its own bond account, such investor may apply to SHCH for checking the balance.

**Article 60** Where bond issuer needs to inquire about Bondholders List due to convening bondholders' conference, etc, it shall submit written application to SHCH.

When intermediary institutions such as accounting firm and law firm, or other institutions, need to inquire about relevant businesses conducted by bondholder, they shall submit written authorization from such bondholder to SHCH.

**Article 61** SHCH is obliged to keep balance of bondholder's bonds under registration and custody, and other relevant materials confidential.

However, when bodies authorized by laws and regulations, raise official written request and show effective evidences, even if without the expressly permit from bondholder, SHCH is obliged to provide information associated with such bondholder. SHCH will assume no responsibility for any consequence caused by such coordination.

## **Chapter 5 Clearing and Settlement of Bond Transaction**

**Article 62** After concluding transaction in Inter-Bank bond market, investor shall conduct clearing and settlement for such bond transaction through SHCH.

When participating in bond transaction, investor shall comply with relevant rules made by PBC, including but not limiting to qualification of transaction party, transaction method, transaction authorization and counterparty, etc.

**Article 63** Clearing and settlement of bond transaction include clearing and settlement of funds and bonds.

**Article 64** On the basis of effective settlement instructions from two parties, SHCH will organize and complete gross case-by-case clearing and settlement for bond transaction. Settlement of bond transaction, once completed, will become irrevocable. Where settlement failure is caused by shortfall of funds or bonds from one party, such party shall assume default liabilities to its counterparty and SHCH will assume no responsibility.

**Article 65** Bonds and funds having been enrolled into settlement process and under unpaid status, and collateral involved with this settlement shall only be applicable to such settlement and shall not be forcibly executed.

### **Section 1 Settlement Path**

**Article 66** As a chartered participant for High Value Payment System of PBC (hereinafter referred to as Payment System), SHCH offers clearing



and settlement services for bond transactions through connection of bond Business System and Payment.

**Article 67** After bond transaction is concluded, bonds settlement is conducted through bond accounts belonging to settlement members, while funds settlement are conducted through funds settlement accounts assigned by settlement members.

**Article 68** When opening bond account and signing Settlement Agreement, settlement member shall assign accurate and effective funds settlement account or open a new funds settlement account, and authorize SHCH to directly debit or credit to such account in order to complete funds clearing and settlement for bond transaction.

**Article 69** Settlement member having opened clearing account in Payment System may assign such clearing account as the funds settlement account for bond transaction. Settlement member having no clearing account in Payment System shall apply to SHCH for opening special funds settlement account and assign such account as the funds settlement account for bond transaction.

**Article 70** As a chartered participant for Payment System, SHCH has opened a chartered clearing account in Payment System and conducts funds settlement for Delivery Versus Payment (DVP) transaction through such account.

Chartered clearing account opened in Payment System by SHCH shall be managed according to relevant rules of PBC.

**Article 71** Special funds settlement account opened by settlement member in SHCH is used to record relevant received and paid funds and funds balance. According to relevant rules of SHCH and agreements between settlement member and SHCH, special funds settlement account may also be used for allocation of funds for interest paying and cashing, and active collection of service fees, etc.

**Article 72** Where settlement member opens special funds settlement account in SHCH, such settlement member shall actively transfer funds payable to such account in order to ensure the smooth completion of bond transaction settlement.

**Article 73** SHCH shall conduct separate management for funds in special funds settlement accounts held by settlement members, and conduct funds settlement strictly in accordance with authorization from settlement members.

## **Section 2 Clearing and Settlement**

**Article 74** After bond transaction is concluded and submitted to SHCH, SHCH will conduct formal examination on transaction elements, and based on effective orders from two parties or relevant business rules, calculate receivable and payable for settlement members with respect to such transaction, generate settlement order and complete bonds and funds settlement under the principle of real-time and case -by-case, on settlement date.

**Article 75** On settlement date, SHCH will organize and conduct funds and bonds settlement for Cash bond transaction according to the following procedures:

- (1) check balance of relevant bonds in bond account of bond payer, and set such bond as unpaid status if having confirmed the balance is sufficient;
- (2) when bonds are sufficient and are locked-up, transfer relevant funds from payer to funds settlement account of payee through Payment System or SHCH Funds System, and timely transfer relevant bonds from bond account of payer to bond account of payee;
- (3) by the required time point, where bonds balance or funds balance of payer remains is insufficient, such settlement is deemed as failure. In the

case of insufficient funds, the relevant bonds held by payer will be recovered to "available status".

**Article 76** Settlement for pledged repo includes initial settlement and final settlement. On initial settlement date, SHCH will organize and conduct settlements of relevant funds and bonds according to the following procedures:

(1) check bonds balance in repo party's bond account, and set relevant bonds as "unpaid status" on the basis of pledged bond type if having confirmed all the types of bonds are sufficient;

(2) when all the types of bonds are sufficient and locked-up, transfer relevant funds of reverse repo party to funds settlement account of repo party through Payment System or SHCH Funds System, and timely set relevant bonds from "unpaid status" to "un-repurchased" timely;

(3) by the end of required time point, where bonds balance of repo party remains insufficient, or funds balance of reverse repo party remains insufficient, such settlement is deemed as failure. In the case of funds insufficiency, bonds of all relevant types in repo party's account will be recovered to be "available status". In the case of initial settlement failure, final settlement instruction becomes invalid.

**Article 77** On final settlement date for pledged repo, SHCH will organize and conduct settlement of relevant funds and bonds according to the following procedures:

(1) when all pledged bonds of repo party remain locked-up, through Payment System or SHCH Funds System, transfer relevant funds of repo party to funds settlement account of reverse repo party, and timely recover all relevant bonds of repo party to "available status";

(2) by the end of required time point, where funds balance of repo party is insufficient, such settlement is deemed as failure, and all relevant bonds of reverse repo party will be maintained as "un-repurchased status". In the

case of final settlement failure, such settlement shall be conducted through instruction of overdue repo resell, or other effective instructions

**Article 78** Settlement for outright repo transaction includes initial settlement and final settlement. On initial settlement date, SHCH will organize and conduct settlements of relevant funds and bonds according to the following procedures:

(1) check balance of object bonds in repo party's bond account, check balance of bond collateral in bond account of collateral provider (if any) and set bonds whose balance are sufficient, depending on bond type, as "unpaid status";

(2) when all bonds are sufficient and locked-up, transfer relevant funds of reverse repo party to funds settlement account of repo party through Payment System or SHCH Funds System, and timely transfer object bonds from repo party's account to reverse repo party's account, and at the same time, set corresponding bond collateral as "pledged status";

(3) by the end of required time point, where object bonds balance of repo party, or bond collateral balance of one party or two parties, or funds balance of reverse repo party remains insufficient, such settlement is deemed as failure. In this case, locked-up bonds will be recovered to be "available status".

**Article 79** On final settlement date of outright repo, SHCH will organize and conduct settlements of relevant funds and bonds according to the following procedures:

(1) check object bonds in custody account of reverse repo party, and if such balance is sufficient, set relevant bonds as "unpaid status";

(2) when object bonds are sufficient and locked-up, through Payment System or SHCH Funds System, transfer relevant funds of repo party to funds settlement account of reverse repo party, and timely transfer object

bonds from account of reverse repo party to account of repo party, at the same time, recover all bond collateral to be "available status";

(3) by the end of required time point, if object bonds balance in reverse repo party's account, or funds balance in repo party's funds account remains insufficient, such settlement is deemed as failure, all bond collateral will be maintained as "pledged status". The subsequent processing for bond collateral will be conducted through effective instructions.

**Article 80** Regarding about settlement for bond forward and bonds lending, SHCH will organize and complete settlement of bonds and funds on settlement date, based on the procedures applied to cash bond transaction settlement.

**Article 81** Regarding outright repo, bonds forward and bonds lending, two parties to a settlement may arrange that one party or two parties provide performance cash collateral or performance bond collateral, SHCH offers service of managing such collateral according to relevant rules of SHCH.

**Article 82** Where two parties agree on adoption of Payment after Delivery (PAD), Delivery after Payment (DAP) or other settlement methods in compliance with rules made by competent authorities, SHCH will conduct settlement on the basis of effective payment or collection instruction from one party, and by referring to aforesaid DVP procedures.

**Article 83** It is permitted to adjust pledged bonds or bond collateral within duration of pledged repo, outright repo, bond forward and bonds lending. Cash delivery is permitted within duration of bonds lending transaction.

**Article 84** Settlement member shall timely and accurately send settlement instructions to SHCH. Funds payer shall ensure there are enough funds in its funds settlement account for settlement, bonds payer shall ensure there are enough bonds in its bond account for settlement.

**Article 85** SHCH establishes and operates Business System for registration, custody, clearing and settlement, and sets and improves emergency processing mechanism. In cases where business is interrupted due to temporary fault of Business System, SHCH will start contingency plan and settlement members shall cooperate with SHCH.

### **Section 3 Settlement Agent**

**Article 86** Settlement agent shall send settlement instructions strictly in accordance with requests from indirect settlement member which it serves as an agent, to complete settlement on behalf of such indirect settlement member. SHCH regards that all the client settlement instructions from settlement agents have been approved by corresponding indirect settlement members. In the case of any legal dispute caused by agency authorization, settlement agent shall assume all relevant responsibilities.

**Article 87** Settlement agent shall timely download relevant settlement and fees reports for the indirect settlement member whom it serves as an agent through SHCH Terminal, and timely and completely provide such reports for corresponding indirect settlement member.

**Article 88** Where indirect settlement member changes settlement agent, the original settlement agent shall show cooperation. Two parties shall complete all issues agreed in Settlement Agency Agreement, settle all relevant fees for client business, and terminate Agreement, then conduct agent change formalities.

Application for change of settlement agent shall be submitted by new settlement agent to SHCH. As of change formalities are finished, all uncompleted businesses shall be conducted by the new agent on behalf of indirect settlement member.

## **Chapter 6 Supplementary Provisions**

**Article 89** In cases where registration, custody, clearing and settlement for bond transactions are not conducted normally due to following force majeure, SHCH shall be exempted from relevant responsibilities:

- (1) natural disasters, wars, riots and strikes, etc;
- (2) laws, regulations or various orders released by competent authorities or judicial bodies;
- (3) fault of relevant payment system and trading systems in other institutions rather than SHCH, and public communications or power supply systems;
- (4) other force majeure factors.

**Article 90** Clearing and settlement for multilateral netting of bond transaction shall be conducted based on *Business Rules on Netting Clearing of Cash Bond Transactions in Inter-Bank Bond Market (Trial Implementation)* and relevant business rules of SHCH.

**Article 91** Charging standards and charging methods for registration, custody, clearing and settlement of bonds shall be subject to charging methods and relevant business rules of SHCH.

**Article 92** Any matter not mentioned in these Rules shall be conducted according to provisions in relevant business rules and guidelines of SHCH.

**Article 93** These Rules will be explained by SHCH and be implemented as of release date.