

Notice of Publishing the *Detailed Rules of the Shanghai Stock Exchange and the China Securities Depository and Clearing Co., Ltd. for Bond Trading, Registration and Settlement for Overseas Institutional Investors*

To market participants:

In order to improve the level of opening up of the bond market and facilitate and regulate the participation of overseas institutional investors in the bond investment business on the Shanghai Stock Exchange, in accordance with the *Announcement of the People's Bank of China, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange* ([2022] No. 4 Document) issued on May 27, 2022 and other relevant provisions, the Shanghai Stock Exchange and the China Securities Depository and Clearing Corporation Limited (CSDC) jointly formulated the *Detailed Rules of the Shanghai Stock Exchange and the China Securities Depository and Clearing Co., Ltd. for Bond Trading, Registration and Settlement for Overseas Institutional Investors*, which is hereby published and shall come into effect on June 30, 2022.

Attachment: *Detailed Rules of the Shanghai Stock Exchange and the China Securities Depository and Clearing Co., Ltd. for Bond Trading, Registration and Settlement for Overseas Institutional Investors*

Shanghai Stock Exchange China Securities

Depository and Clearing Corporation Limited

June 28, 2022

Attachment

*Detailed Rules of the Shanghai Stock Exchange and the China Securities
Depository and Clearing Co., Ltd. for Bond Trading, Registration and
Settlement for Overseas Institutional Investors*

Chapter 1 General Provisions

Article 1 In order to regulate the bond trading activities of overseas institutional investors on the Shanghai Stock Exchange (hereinafter referred to as the SSE) and maintain the order of the exchange bond market, these Detailed Rules are formulated in accordance with the *Announcement of the People's Bank of China, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange* ([2022] No. 4 Document) and other laws, administrative regulations, departmental rules and normative documents (hereinafter collectively referred to as laws and regulations) and relevant business rules of the SSE and the China Securities Depository and Clearing Corporation Limited (hereinafter referred to as the CSDC).

Article 2 Where overseas institutional investors recognized by the

People's Bank of China or its Shanghai Headquarter participate directly in the bond market of the SSE, the *Detailed Rules* shall apply to the relevant custody, trading, account, registration and clearing and settlement businesses. For items not stipulated in the *Detailed Rules*, the *Shanghai Stock Exchange Bond Trading Rules*, the *Shanghai Stock Exchange Membership Management Rules*, the *China Securities Depository and Clearing Co., Ltd. Securities Registration Rules*, the *China Securities Depository and Clearing Co., Ltd. Clearing and Settlement Rules*, the *China Securities Depository and Clearing Co., Ltd. Account Management Rules* and other relevant regulations of the SSE and the CSDC shall apply.

Article 3 Overseas institutional investors who participate directly in the SSE bond market shall entrust a qualified commercial bank as the custodian, entrust a domestic securities company with membership of the SSE as trading participant to participate in bond trading, and entrust a domestic securities company with the qualification as clearing and settlement participant of the CSDC to handle the clearing and settlement business.

Overseas institutional investors can also participate in the SSE bond market in other ways approved by the SSE and the CSDC.

Article 4 Overseas institutional investors and their domestic custodians, trading participants, clearing and settlement participants and other entities participating in the bond custody, trading, account,

registration and clearing and settlement business of the SSE shall accept the self-disciplinary management of the SSE and the CSDC.

Chapter II Information Submission

Article 5 Overseas institutional investors shall sign an engagement letter for information submission with the domestic custodian. The custodian shall submit the basic information of the overseas institutional investor, the basic information of the custodian and the basic information of the trading participant to the SSE.

Article 6 The custodians shall submit the relevant information to the SSE within 5 trading days from the date of the occurrence of the fact or the date of notification by the client under the following circumstances:

- (1) Appointing or changing the custodian;
- (2) Opening or canceling securities accounts, and appointing or changing trading participants or clearing and settlement participants;
- (3) Changing the basic information such as the name of the institution, the place of registration, or the business contact person;
- (4) Dissolution, declaration of bankruptcy or merger by other institutions;
- (5) Involvement in major lawsuits or other major events domestically or overseas;
- (6) Receiving major punishment domestically or overseas;
- (7) Receiving self-disciplinary action;
- (8) Receiving punishment from the China Securities Regulatory

Commission, the People's Bank of China, or the State Administration of Foreign Exchange;

(9) Other circumstances stipulated by the relevant regulatory authorities, the SSE and the CSDC.

Article 7 The SSE may require the corresponding custodian to report the bond holdings of overseas institutional investors in a timely manner for abnormal trading activities that may seriously affect the normal trading order, or trading activities suspected of violations of laws and regulations; where the overseas institutional investor invests in the exchange bond market as product manager, the SSE may require the custodian to submit the information including investors of the products and their bond holdings.

Chapter III Trading Entrustment

Article 8 A securities account of an overseas institutional investor can only be designated to one trading participant.

Article 9 A trading participant shall perform the following management duties for the bond trading conducted by the overseas institutional investor as its brokerage client on the SSE:

(1) According to the requirements of the SSE, reporting to the SSE the information of the overseas institutional investor it is designated by;

(2) Setting up front-end controls in the relevant business systems to verify the funds, bonds, prices, etc. involved in every order submitted by the overseas institutional investor, to ensure that the orders submitted

comply with the relevant rules of the SSE;

(3) Contacting the overseas institutional investor in a timely manner where the overseas institutional investor, due to abnormal trading activities, receives self-regulatory action from the SSE, notification of relevant regulatory information, and normalizing and putting restraints on the trading activities of the overseas institutional investor;

(4) Cooperating with the SSE to conduct relevant investigations, and providing documents about overseas institutional investors, including account opening files, authorization letter, deposit and withdrawal certificates of funds, fund account files, and description of relevant transactions, in a timely, truthful, accurate and complete manner;

(5) Other duties to manage the trading activities of clients, as stipulated in the *Detailed Implementation Rules for the Management of Securities Trading Activities of Clients by Members of the Shanghai Stock Exchange*.

Article 10 Trading participants entrusted by overseas institutional investors shall be diligent and responsible, and strengthen the management of trading activities of overseas institutional investors. If the trading participant discovers that the overseas institutional investors' bond investment activities is or may be in violation of regulations, they shall take measures in accordance with the principal-agent agreement and report to the SSE in a timely manner.

Trading participants should make an agreement with overseas

institutional investors in the principal-agent agreement that, in the case of illegal use of accounts by the overseas institutional investor, or other abnormal trading activities that may seriously affect the normal trading order, the trading participant may reject orders from the overseas institutional investor, or terminate the principal-agent relationship between the two sides.

Chapter IV Investment Activities

Article 11 Overseas institutional investors may, as institutional investors among professional investors, participate in the subscription, trading or transfer of the following products:

(1) Bonds (including convertible corporate bonds and exchangeable corporate bonds);

(2) Asset-backed securities;

(3) Bond lending;

(4) Relevant derivative products for the purpose of risk management;

(5) Bond funds (including bond-traded open-ended index funds);

(6) Other products with fixed income characteristics, such as cash bonds, related derivatives, and bond fund products approved by the China Securities Regulatory Commission, People's Bank of China or the Shanghai Stock Exchange.

Article 12 Where convertible corporate bonds or exchangeable corporate bonds held by overseas institutional investors need to be

converted or exchanged for shares, they shall be converted through their securities accounts of Qualified Foreign Institutional Investors or RMB Qualified Foreign Institutional Investors (hereinafter collectively referred to as QFIIs), and comply with relevant provisions on changes in rights and interests and the shareholding ratio of overseas institutional investors, such as laws and regulations and relevant business rules of the Shanghai Stock Exchange, and perform information disclosure obligations in accordance with regulations.

Article 13 Where a foreign institutional investor participates in the bond trading of the SSE via its legitimately issued or managed products, the overseas institutional investor shall fully disclose the investment risks of the SSE bond market to the product investors. The product issuer shall reach an agreement that its investors abide by relevant laws and regulations and the business rules of the SSE, accept the management of the bond trading behavior carried out by the trading participants on the foreign institutional investors, and accept the self-discipline supervision of the SSE.

Chapter V Registration of Securities Accounts and Clearing and Settlement

Article 14 Overseas institutional investors shall directly participate in the bond market of the Shanghai Stock Exchange as legal persons and open securities accounts with CSDC.

Overseas institutional investors shall, in accordance with the relevant business rules of CSDC, submit application materials such as filing certification documents issued by PBOC or its Shanghai Headquarter.

Article 15 Overseas institutional investors may, in accordance with the needs of investment management, handle the two-way transfer of bonds and other varieties of products between their securities accounts and the QFII securities accounts in accordance with the relevant business rules of CSDC. The range of varieties that can be transferred in both directions shall be consistent within the range stipulated in Article 11 of the *Detailed Rules*.

Article 16 The domestic custodian shall guarantee that bonds and other varieties of products involved in the two-way transfer between overseas institutional investors and QFII belong to the same overseas institutional investors.

Article 17 Where a foreign institutional investor directly participates in the bond market of the Shanghai Stock Exchange, it shall entrust a domestic securities company with the qualification of a settlement participant to handle the clearing and settlement of relevant securities and funds in accordance with the brokerage business model. CSDC is responsible for handling the clearing and settlement between CSDC and settlement participants, and among settlement participants; the settlement

participant is responsible for handling the clearing and settlement between the settlement participant and the overseas institutional investor.

Chapter VI: Self-Regulatory Supervision and Management

Article 18 The SSE shall, in accordance with law, conduct self-discipline supervision over the participation of overseas institutional investors in the bond investment activities of the SSE, monitor and analyze their abnormal trading behavior, and take corresponding regulatory measures and disciplinary sanctions.

Article 19 In the event of abnormal transactions or other violations of laws and regulations, *Detailed Rules* and other provisions of the SSE by foreign institutional investors or their product investors, the SSE may, depending on the seriousness of the circumstances, impose the following regulatory measures or disciplinary sanctions, and if the circumstances are serious, report to the CSRC for investigation and punishment:

- (1) Verbal warnings;
- (2) Written warnings;
- (3) Restricting transactions in relevant securities accounts;
- (4) Circulating criticisms;
- (5) Public condemnation;
- (6) Other regulatory measures or disciplinary sanctions stipulated in the rules of the SSE.

Article 20 Where a transaction participant or custodian violates *Detailed Rules* or other provisions of the SSE and fails to perform its due

diligence, fails to submit information in a timely manner, or fails to take effective measures in a timely manner, etc., the SSE may impose the following regulatory measures or disciplinary sanctions alone or concurrently, depending on the seriousness of the circumstances, and if the circumstances are serious, report to the CSRC for investigation and punishment:

- (1) Verbal warnings;
- (2) Written warnings;
- (3) Suspending or restricting trading authority;
- (4) Circulating criticisms;
- (5) Public condemnation;
- (6) Terminating its qualification as a participant in the transaction;
- (7) Other regulatory measures or disciplinary sanctions stipulated in the rules of the SSE.

Article 21 Where errors occur in transaction or registration and settlement data due to force majeure, technical failures, human errors or other reasons, the SSE and CSDC shall correct them after checking and agreeing with the relevant institutions.

Where sudden events such as force majeure, unexpected events, major technical failures, major human errors or other sudden events affect the normal conduct of bond trading or registration and settlement, in order to maintain the normal order of bond trading or registration and settlement and market fairness, the SSE and CSDC may take disposal

measures in accordance with business rules. Where relevant disposal measures are taken to cause losses to relevant market entities, the SSE and CSDC shall not bear civil compensation liability, except where there is a major fault.

Article 22 Transaction participants, settlement participants, and custodians shall keep the custody, entrustment, transaction, account, registration, settlement records, and other materials of overseas institutional investors in their entirety, and keep them for not less than 20 years.

Article 23 Fees related to overseas institutional investors' participation in bond trading, accounting, registration and settlement of the SSE shall be charged in accordance with the standards of the CSRC, the SSE and the CSDC.

Tax arrangements related to bond trading for overseas institutional investors shall be implemented in accordance with the relevant provisions of the State.

Chapter VII Supplementary Provisions

Article 24 Overseas institutional investors who are allowed to enter the interbank bond market may invest in the SSE bond market directly or through interconnection as institutional investors among professional investors.

Article 25 The SSE and CSDC shall be responsible for the interpretation of the *Detailed Rules*.

Article 26 *The Detailed Rules* shall take effect as of June 30, 2022.