

Implementing Rules of Shanghai Stock Exchange on Bond Trading

(Revised in 2019)

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Chapter I General Provisions

Article 1 These *Implementing Rules* are formulated in accordance with applicable national laws and regulations and the *Trading Rules of Shanghai Stock Exchange* (the “*Trading Rules*”) to regulate trading activities in the bond market of the Shanghai Stock Exchange (the “SSE”), maintain an orderly market, prevent market risks, and protect the legitimate rights and interests of investors.

Article 2 These *Implementing Rules* are applicable to the spot trading and collateral repo trading of treasury bonds, corporate bonds, enterprise bonds, corporate bonds in detachable convertible bonds (each a “bond”) in the auction trading system. Any matter not covered by these *Implementing Rules* shall be governed by the *Trading Rules* and other applicable rules of the SSE.

The SSE will separately set out the rules applicable to trading of bonds on the SSE’s Integrated Electronic Platform of Fixed-Income Securities.

The trading of convertible corporate bonds and other types of bonds listed on the SSE shall be governed by the *Trading Rules* and other applicable rules of the SSE.

Article 3 An investor who intends to trade bond through the auction trading system of the SSE shall, as required by the designated trading system of the SSE, designate a member in advance as its agent and conclude therewith a designated trading agreement and a spot and repo trading brokerage agreement.

A member shall be responsible and legally liable for the lawfulness, truthfulness, accuracy and completeness of the bond trading orders it sends to the SSE. Any member who uses its client’s bonds as pledged bond in a repo trade or for spot bond trading shall be deemed as having obtained such client’s consent for which the SSE shall have no obligation to review.

Article 4 Members and other institutions engaged in bond trading shall each establish a sound business management system and risk control mechanism.

No member may use its client’s securities account without authorization or divert its client’s bonds to carry out repo trading for itself or others. The SSE may restrict or suspend the repo trading of any member who has violated the foregoing and ultimately revoke its trading privileges; where the circumstance is serious, the SSE may refer such member to the China Securities Regulatory Commission (CSRC) for further investigation.

Article 5 Bond registration, custody, and settlement shall, be handled in accordance with applicable rules by a securities registration and clearing institution designated by the SSE.

Chapter II Spot Trading

Article 6 Spot trading shall be conducted on a net price basis. Each spot trade order shall be placed through and registered under a securities account.

Article 7 Bond purchased in a spot trade may be sold on the same day.

Article 8 During auction trading, each spot bond order shall meet the following requirements:

- (1) each trade shall be in lots with 1 lot equaling to bonds with a total par value of RMB 1,000;
- (2) the order shall be quoted at the price per RMB 100 in par value;
- (3) the tick size for each order shall be RMB 0.01;
- (4) each order shall be in a multiple of 1 lot and up to a maximum of 100,000 lots; and
- (5) the price range for each quote shall be governed by the *Trading Rules*.

Article 9 In spot trading, the opening price of the bond on any trading day shall be as determined by the auction on that day. Where no opening price is so determined, it shall be the execution price of the first trade during the continuous auction.

The closing price of the bond shall be the volume-weighted average of all the execution prices for the bond in the one-minute interval before the last trade on that day (including the last trade). In the absence of any trade on a trading day, the closing price shall be the one from the preceding day.

Chapter III Repo Trading

Article 10 Collateral repo trading shall be conducted by auction. On each trading day, the opening auction session runs from 9:15 a.m. to 9:25 a.m., and the continuous auction session from 9:30 a.m. to 11:30 a.m. and from 1:00 p.m. to 15:30 p.m.

If necessary for market development, the SSE may, with the approval of the CSRC, adjust the above trading hours.

Article 11 Collateral repo trading shall be conducted through a collateral depository system, whereby the borrower, before placing a repo order, shall provide corresponding bonds as collateral via the trading system of the SSE, which bonds shall then be transferred to a dedicated collateral account according to the rules of the securities registration and clearing institution handling the trading.

Article 12 A member who accepts an investor's instruction to conduct a repo trade shall require the investor to provide pledged bonds and shall check the balance of standard bonds

available for repo trades under the investor's securities account.

An order for repo trade is invalid if the balance of the standard bonds is insufficient.

Article 13 In a repo trade, the borrower shall place a "buy" order, and the lender shall place a "sell" order.

Article 14 Bond purchased on a trading day may be used as pledged bond and in the corresponding repo trades on the same day.

Article 15 In the case of any excess standard bonds in a repo trade, the borrower may use the trading system of the SSE to transfer the corresponding pledged bonds back to the original securities account. The bonds requested to be transferred back on a trading day may be sold on the same day.

Article 16 During auction trading, each repo order shall meet the following requirements:

- (1) each order shall be in lots with 1 lot equaling to RMB 1,000 standard bonds;
- (2) the order shall be quoted at the yield-to-maturity per RMB 100;
- (3) the tick size for each order shall be RMB 0.005 or a multiple thereof;
- (4) each order shall be in a multiple of 100 lots and up to a maximum of 100,000 lots; and
- (5) the price range for each quote shall be governed by the *Trading Rules*.

Article 17 In a repo trade, the opening price of the bond on any trading day shall be as determined by the auction on that day. Where no opening price is so determined, it shall be the execution price of the first trade during the continuous auction.

The closing price of the bond shall be the volume-weighted average price of all the trades of the bond in the one-hour interval before the last trade on that day (including the last trade). In the absence of any trade on a trading day, the closing price shall be the one from the preceding day.

Article 18 A repo trade may have a term of 1, 2, 3, 4, 7, 14, 28, 91 and 182 days, among others.

The SSE may, as necessary for the market, adjust the available terms of repos and types of admissible bonds.

Article 19 Each repo trade shall be conducted on a "one trade, two settlement rounds" basis. The clearing and settlement of repo trades shall be governed by the rules of the securities registration and clearing institution handling the trades.

Article 20 Upon maturity of a repo trade, the securities registration and clearing institution shall calculate the payment and the quantity of pledged bonds to be delivered according to the following formula for the repurchase price:

Repurchase price = RMB 100 + annualized yield × RMB 100 × actual duration of the use of the borrowed funds / 365.

The actual duration of the use of the borrowed funds refers to the number of calendar days between the initial settlement date (inclusive) of the repo trade and the final settlement date (exclusive) thereof.

Article 21 The term of a repo trade shall be calculated by calendar days. Where the maturity day falls on a non-trading day, it shall be postponed to the following trading day.

Article 22 The borrower in a repo trade shall maintain the full amount of standard bonds required by the repo throughout the term of the repo.

Upon maturity of the repo trade, the borrower may use the trading system of the SSE to either transfer the corresponding pledged bonds back to the original securities account or apply them toward subsequent repo trades. The bonds requested to be transferred back on a trading day may be sold on the same day.

Article 23 The SSE will publish the types of bonds admissible in collateral repo trading in bond listing announcements. The SSE has the right to suspend certain bonds from collateral repo trading based on market and issuer conditions.

Repo trades involving bond index exchange-traded funds listed on the SSE shall be conducted in reference to those involving bonds. The quotation unit is ETF share; each order shall be in a multiple of 100 shares and up to a maximum of 100,000 shares. The SSE will separately provide the rules governing such repo transactions.

Chapter IV Supplementary Provisions

Article 24 The following terms shall have the meanings specified below:

(1) Net price trading: in spot bond trading, refers to the trading mode where the order is quoted and executed at a price excluding future interest.

(2) Collateral repo trading: refers to a trade in which bonds are pledged at the same time as, and in exchange of, a loan equaling to or less than the value of standard bonds converted from the pledged bonds at the conversion ratio, with it being agreed that upon the maturity of the trade the loan will be repaid and the bonds will be released from the pledge. The party that secures the loan by pledging its bonds is referred to as the “borrower;” the counterparty is referred to as the “lender.”

(3) Standard bonds: refers to virtual bonds converted from various types of bonds at the corresponding conversion ratio to determine the amount of loan in collateral repo trading.

(4) Conversion ratio for standard bond: refers to the ratio of the value of standard bonds converted from a given type of spot bond to the par value of the bond.

(5) Pledged bond: refers to a bond that is pledged at a securities registration and clearing institution to be used as collateral in repo transactions.

Article 25 These *Implementing Rules* and any amendment thereto shall come into force upon being discussed and approved by the Board of Governors of the SSE.

Article 26 The SSE reserves the right to interpret these *Implementing Rules*.

Article 27 These *Implementing Rules* shall be implemented as of the date of issuance.