

Notice on Modifying the Circular on Relevant Issues Concerning the Adjustment of Corporate Bond Settlement Business

All settlement agency participants:

You are hereby notified that the management standard for different categories of transactions of listed corporate bonds has recently been adjusted in the *Rules of the Shanghai Stock Exchange on the Listing of Corporate Bonds*. As a result, the China Securities Depository and Clearing Corporation Limited has updated the *Circular on Relevant Issues Concerning the Adjustment of Corporate Bond Settlement Business* (Zhong Guo Jie Suan Fa Zi [2010] No. 47) for better foreground-background service coordination. In accordance with the updated Circular, multilateral net settlement can be applied to corporate bonds listed on the Shanghai Stock Exchange by reference to provisions in Article 2.2 of the *Rules of the Shanghai Stock Exchange on the Listing of Corporate Bonds*. The modified Circular is attached to this Notice and shall come into effect as of the date of promulgation.

Appendix: Circular on Relevant Issues Concerning the Adjustment of Corporate Bond Settlement Business

March 12, 2012

Circular on Relevant Issues Concerning the Adjustment of Corporate Bond Settlement Business

All settlement agency participants:

With a view to promoting the healthy development of the stock exchange bond market, the circular on issues concerning the adjustment of corporate bond settlement business is hereby issued as follows upon consultation with the Shanghai and Shenzhen Stock Exchanges:

1. Adjustment of the standard for implementing multilateral net settlement for corporate bonds

(1) For corporate bonds listed on the Shanghai Stock Exchange (hereinafter referred to as SSE), the China Securities Depository and Clearing Corporation Limited may adopt multilateral net settlement with regard to the spot corporate bond transactions that concurrently satisfy the relevant conditions by reference to the provisions of Article 2.2 of the Rules of the Shanghai Stock Exchange on the Listing of Corporate Bonds.

(2) For corporate bonds listed on the Shenzhen Stock Exchange (hereinafter referred to as SZSE), the China Securities Depository and Clearing Corporation Limited may adopt multilateral net settlement with regard to the spot corporate bond transactions that concurrently satisfy the relevant conditions by reference to the provisions of Article 2.3 of the Rules of the Shenzhen Stock Exchange on the Listing of Corporate Bonds.

(3) For spot corporate bond transactions that fail to meet the aforesaid conditions, the China Securities Depository and Clearing Corporation Limited does not provide multilateral net settlement services; instead, a trade-for-trade gross settlement service is provided.

(4) If a corporate bond fails to meet the aforesaid net settlement standard throughout its duration when the rating drops, the China Securities Depository and Clearing Corporation Limited shall have the right to implement a trade-for-trade gross settlement for the corporate bond.

2. Adjustment of the standard for implementing collateralized repo for corporate bonds

Corporate bonds are eligible for collateralized repo on the corresponding stock market as collateralized bonds if they meet the aforesaid net settlement standard and any one of the following conditions:

(1) The issuer of the corporate bonds is a department directly under the Central Government or a wholly state-owned enterprise directly under the Central Government;

(2) An unconditional and irrevocable full amount guarantee with joint and several liabilities or a guarantee with sufficient assets is provided for the corporate bonds by one of the following institutions: Industrial and Commercial Bank of China Limited, Bank of China Limited, China Construction Bank Corporation, Agricultural Bank of China Limited, Bank of Communications Company Limited and China Development Bank Corporation;

(3) Both the ratings of the entity and the bond are above an AA rating (inclusive);

(4) Other bonds approved by the China Securities Regulatory Commission.

3. Other issues

(1) For corporate bonds approved by a related department under the State Council and bonds detached from detachable convertible corporate bonds, the net settlement standard regarding spot corporate bond transactions and the collateralized repo standard on the SSE shall refer to the corporate bonds listed on the SSE, and spot transaction settlement and the collateralized repo standard on the SZSE shall be handled in accordance with the current provisions of the SZSE and by referring to the corporate bonds listed on the SZSE.

(2) The Circular comes into effect as of the date of its promulgation. The *Circular on Relevant Issues Concerning Arrangements for Improvement of the Bond Settlement Business* (Zhong Guo Jie Suan Fa Zi [2008] No. 157) promulgated by the China Securities Depository and Clearing Corporation Limited in October 2008 shall be abolished simultaneously.