

The Opening up of China's Bond Market and the Development of Interbank Panda Bond Market

2021



中国银行间市场交易商协会
National Association of Financial Market Institutional Investors

INSTRUCTION

This brochure will be updated and amended by NAFMII from time to time. If any domestic or overseas market participants have any objections, suggestions or updates, please contact the International Dept. of NAFMII:

Zhe Li

8610-66539253

lizhe@nafmii.org.cn

If you want to know more details about procedures and practices of Panda bond market, please refer to the brochure released by NAFMII:

Raising finance in China's bond market – Case Studies

DISCLAIMER

This brochure is released for information purposes only. NAFMII have provided this brochure as a service to panda bond issuers, investors and other participants on China's interbank bond market. It is neither a legal interpretation nor a statement of NAFMII policy.

This brochure is compiled based on publicly available information and certain information provided by the relevant issuers and lead underwriters, which may or may not have been verified. NAFMII do not make any representation, warranty or assurance of any kind, expressed or implied, regarding the accuracy, completeness or timeliness of any of the information contained in this brochure. The use of this brochure and its contents is the exclusive responsibility of the user.

This brochure constitutes neither an offer to sell nor solicitation of an offer to buy any securities.

CONTENTS

- I** History and Evolution of China's Bond Market
- II** NAFMII's Role in Interbank Market
- III** Interbank Panda Bond Market

I. History and Evolution of China's Bond Market

Brief history of China's Bond Market

1

Start up period (1988-1992)

- ◆ Pilot issuance of government bond was launched by financial institutions in OTC market.
- ◆ In early 1991, government bonds were widely issued and traded in over 400 domestic cities .

2

Exchange traded market period (1992-2000)

- ◆ Government bond futures were introduced to the exchange traded market in 1992.
- ◆ Market went through reform in 1995, after which bonds were mainly traded in exchange market until interbank market was created.

3

The interbank market period (2001-Present)

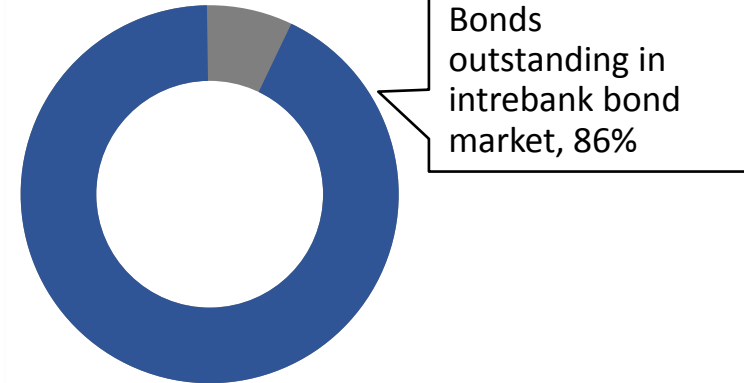
- ◆ In June 1997, commercial banks exited the exchange traded market.
- ◆ Interbank bond market now have various types of institutional investors, with rising trading volume and diversified methods of trading.

I. History and Evolution of China's Bond Market

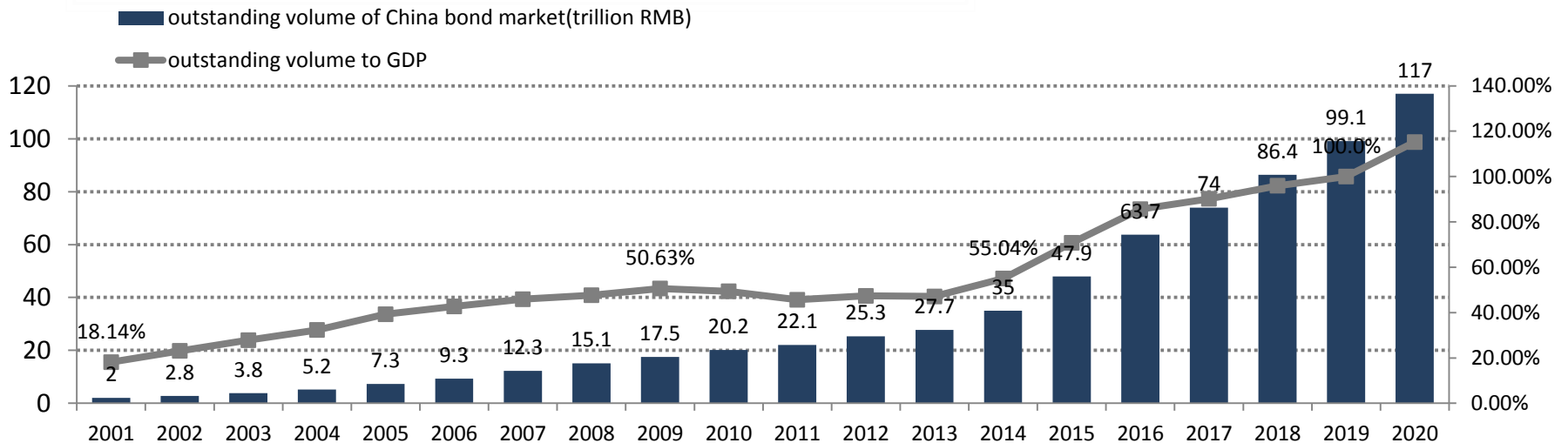
Amounts Outstanding

As of the end of 2020, bonds outstanding reached 117 trillion yuan.

About 86% of all bonds outstanding are in interbank bond market, in which 2020 year-end data shows that bonds outstanding totalled 100.7 trillion.



China's Bond Market Proportional to GDP (2001-2020)



I. History and Evolution of China's Bond Market

Issuance volume

In 2020, total bond issuance amounted to 57.3 trillion yuan, 26.5% higher than total issuance in 2019. Corporate bond issuances have increased significantly.

Bond Type	Issuance volume in 2020 (trillion)		Issuance volume in 2019 (trillion)	
Government bonds	7	12.22%	4.0	8.83%
Local government bond	6.4	11.17%	4.4	9.71%
Financial institution bond	9.3	16.23%	6.9	15.23%
Government-supported Institution bond	0.358	0.62%	0.372	0.82%
Asset-back securities	2.3	4.01%	2.0	4.42%
Negotiable Certificates of Deposit	19	33.16%	18	39.74%
Corporate bond	12.2	21.29%	9.7	21.41%
Total Issuance	57.3	100.00	45.3	100.00

I. History and Evolution of China's Bond Market

Bondholder structure

Interbank market investors include commercial banks, securities companies, trust and investment companies (TICs), finance companies affiliated with corporations, insurance companies, fund management companies, sovereign wealth funds, international financial institutions, qualified non-financial institutions and overseas investors.

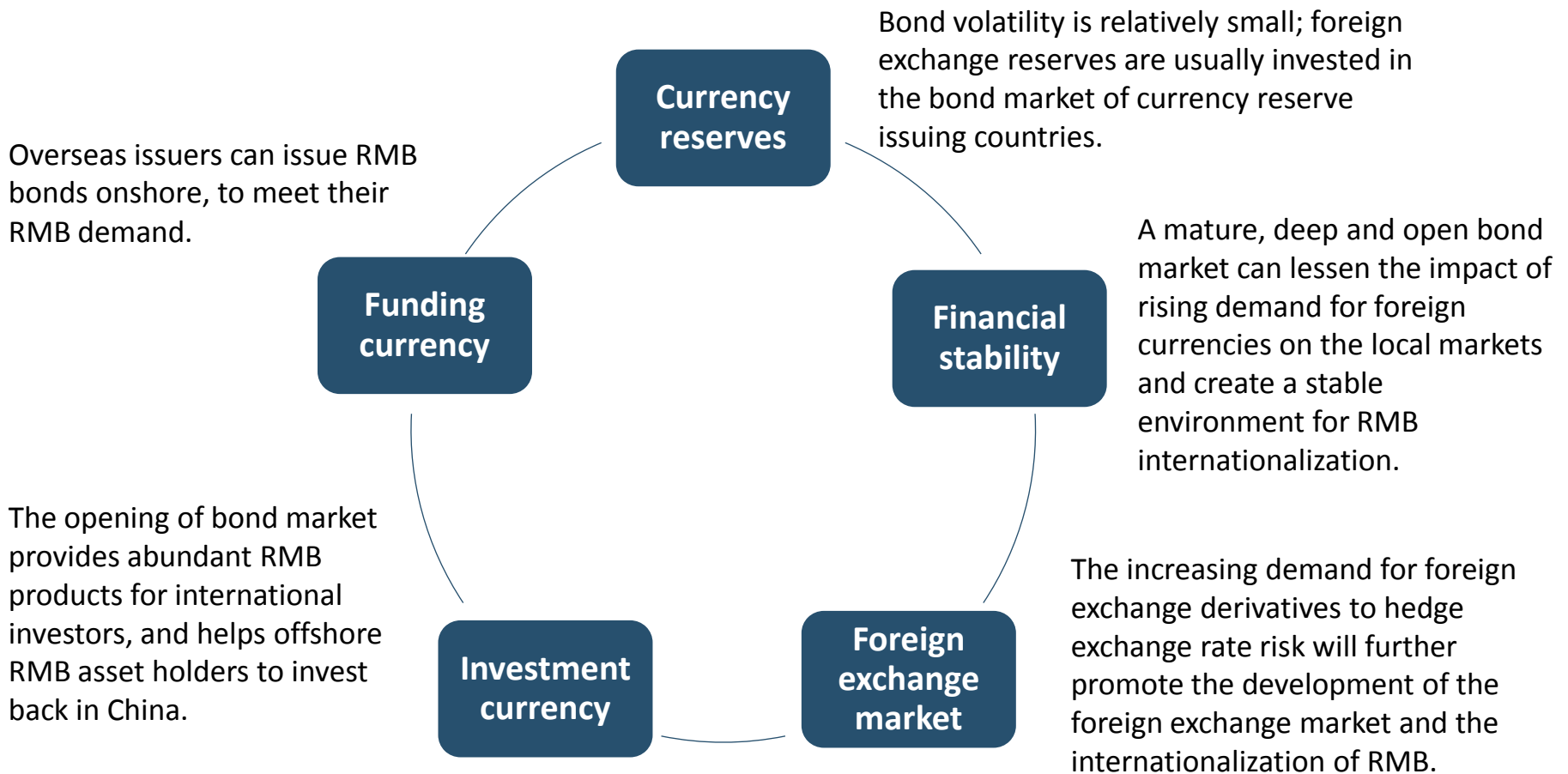
As the end of 2020, there are a total of 27958 investors in the inter-bank bond market, an increase of 2070 participants compared to 2019 year end.

It is worthy of noting that overseas bondholders' participation has increased significantly over the past several years due to China's efforts to open up its bond market.

I. History and Evolution of China's Bond Market

External drivers of opening up bond market – RMB Internationalization

Milestone 1: RMB included in the new SDR basket



I. History and Evolution of China's Bond Market

External drivers of opening up bond market – RMB Internationalization (cont'd)

Milestone 2: Chinese bonds integrated in international bond index



On March 1, 2018, Bloomberg officially released two new fixed income indices which included the Chinese Composite Index of government bonds and policy bank bonds. On April 1, 2019, Bloomberg formally added Chinese bonds into the Bloomberg Barclay Global Aggregate Index, which will be completed in 20 months.



JPMorgan added 9 Chinese government bonds to its Government Bond Index Emerging Markets (GBI-EM) suite in a 10-month from February 28, 2020.



JPMorgan estimates that including Chinese bonds into three major global bond indices, including the JPMorgan Chase Global Emerging Market Diversified Bond Index, the Bloomberg Barclays Global Composite Bond Index and the FTSE Global Government Bond Index, could generate inflows of up to \$25 billion to \$300 billion.



Chinese government bonds will be added to the FTSE World Government Bond Index (WGBI) over three years from the end of October, 2021.

I. History and Evolution of China's Bond Market

Investment of overseas institutional investors

Facts

At present, overseas investors can invest in the inter-bank bond market through three channels: CIBM (CIBM Direct), QFII or RQFII, and Bond Connect. However, the investment scale of overseas investors is still far lower than that of other developed countries and fast-growing emerging market countries.

Investors

By the end of 2020, 905 overseas institutions were permitted to enter Chinese inter-bank bond market. The types of investor include foreign central banks, international financial organizations, sovereign wealth funds, commercial banks, insurance companies, securities companies, fund management companies and other asset management institutions.

Volume

By the end of January 2021, the aggregate amount of inter-bank market bonds held by overseas institutions was 3.48 trillion RMB. Chinese bond market has become an important market for overseas institutional investors to allocate assets.

I. History and Evolution of China's Bond Market

Intermediary agencies participating in opening up inter-bank bond market



Foreign invested banks and securities companies participate in the opening up of inter-bank bond market

Local subsidiaries of HSBC, Standard Chartered Bank, Citibank, and Goldman Sachs have participated in the underwriting of RMB bonds issued by government agencies.

NAFMII has initiated market evaluation of participation of local subsidiaries of overseas banks in lead underwriting business. Deutsche Bank and BNP Paribas have received Type-A lead underwriting license (full license). HSBC and Standard Chartered have received Type-B lead underwriting license (for panda bond).



Overseas rating agencies may enter the inter-bank bond market to conduct business

PBC issued Announcement No. 7 of 2017, allowing eligible domestic and overseas rating agencies to enter the inter-bank bond market to conduct business. Overseas rating agencies conducting credit rating business in the inter-bank bond market shall submit Letter of Commitment for Supervision to the PBC and designate their branches in China to cooperate with the supervision. S&P and Fitch was granted access into China's interbank bond market for credit rating business.

II. NAFMII's Role in Interbank Market

Overview of NAFMII

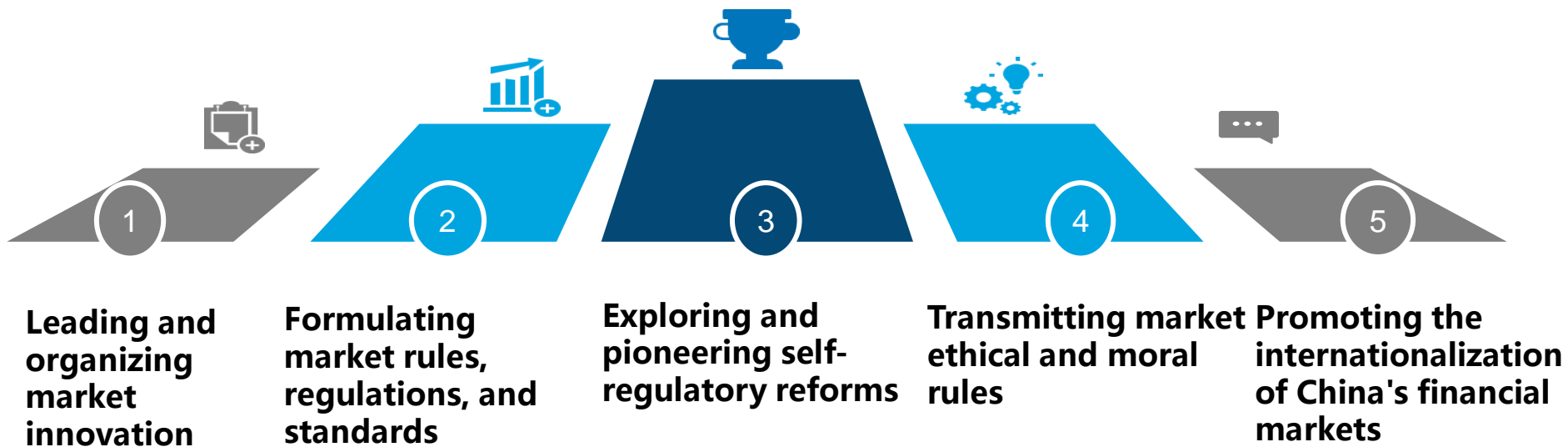
NAFMII was approved by Chinese State Council and started operation under the auspices of PBoC in 2007. As a self-regulatory organization(SRO) in interbank market, NAFMII aims to promote the sound development of the market, market integrity and provide solid support for the real economy.

By January 2021, NAFMII has over 8000 members, which covering banks, credit cooperatives, securities companies, insurance companies, fund management companies, major enterprises, and other types of institutional investors.



II. NAFMII's Role in Interbank Market

Medium and long-term development plan

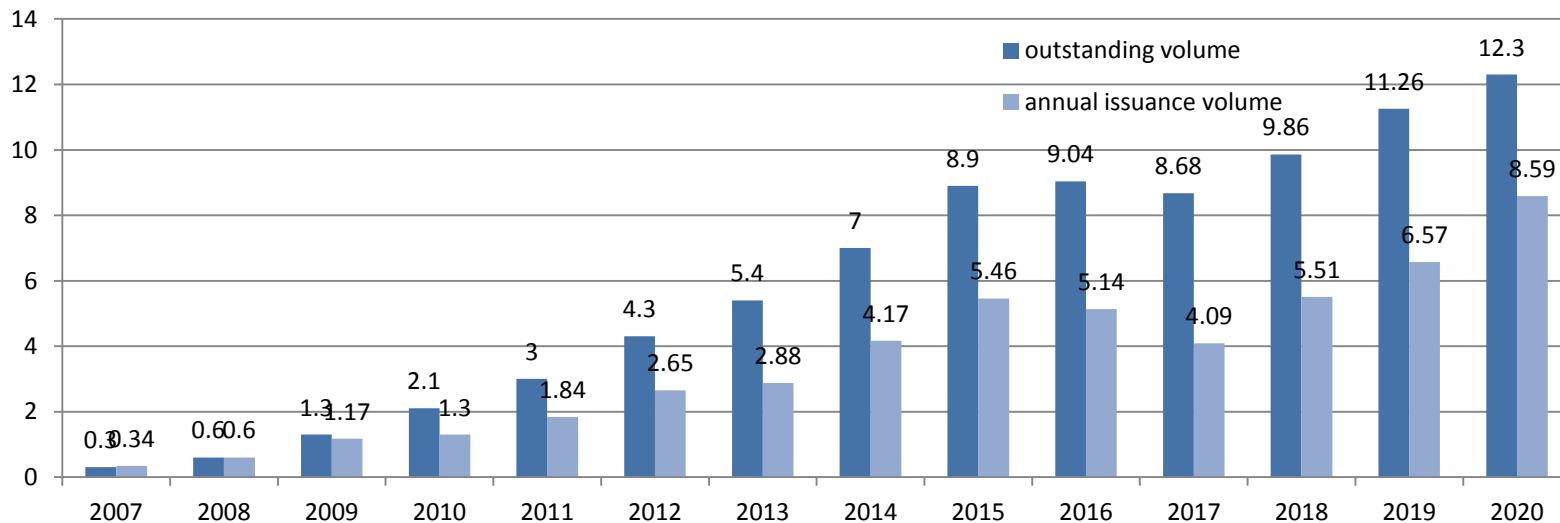


II. NAFMII's Role in Interbank Market

Debt financing instrument market

NAFMII plays an important role in interbank bond market through its self-regulation over the non-financial enterprises' registration, issuance as well as post-issuance management of debt financing instrument. Outstanding debt financing instruments saw steady increase over the past decade, which effectively served non-financial enterprises' funding needs. NAFMII is therefore providing substantial support for the real economy and the supply-side reform.

**Outstanding balance and issuance volume of DFI
(trillion)**



II. NAFMII's Role in Interbank Market

Various Types of Debt Financing Instruments

Since its establishment, NAFMII has been actively promoting market innovation. Currently, there are many types of debt financing instruments in interbank bond market, meeting the diverse needs of both issuers and investors.

- ❑ Medium Term Note(MTN), 2008
- ❑ MTN embedded with options, 2009
- ❑ USD-denominated MTN, 2009
- ❑ SME Collective Note, 2009
- ❑ Credit Risk Mitigation, 2010
- ❑ Super Short-term Commercial Paper, 2010
- ❑ Private Placement Note, 2011
- ❑ Asset-backed Note, 2012
- ❑ Perpetual Note, 2013
- ❑ M&A Note, 2013
- ❑ Supply Chain Note, 2014
- ❑ Non-financial Enterprise Panda Bond, 2013
- ❑ Green Note, 2015
- ❑ Foreign Government Panda Bond, 2015
- ❑ FT-Zone Note, 2016
- ❑ Credit Default Swap, 2016
- ❑ Asset-backed commercial paper(ABCP),2020

II. NAFMII's Role in Interbank Market

Promoting the opening up of China's Bond Market

Promoting panda bond issuances

Facilitating overseas investors participation in the interbank bond market



Fostering convenient market accesses and good market environment for overseas players

Strengthening international cooperation and communication

- As of the end of 2020, NAFMII has established regular contact and exchange with over 330 institutions in 45 countries and regions around the world. We're maintaining close cooperation with various important international SROs(i.e., ICMA, SIFMA/ASIFMA, Paris Europlace, etc..)
- Promoting the registration and issuance of panda bonds, and formulating guidelines for interbank panda bond market.
- Supporting PBC in RMB internationalization (RMB joining SDR, cross-border capital flow)
- Enhancing market transparency (i.e. providing English version of NAFMII's main self-regulatory rules on website to facilitate overseas participants' understanding in interbank market.

III. Interbank Panda Bond Market

Definition of Panda Bond

According to international practice, when an overseas institution issues local currency bonds in a country's domestic market, it is generally named after the most characteristic elements of the country, such as the Japanese “samurai bond”, the US “Yankee bond”, and the British “Bulldog bond”.

In September 2005, international development institutions were allowed to issue RMB bonds in China for the first time. The RMB-denominated bonds issued by overseas institutions in China were named “Panda Bond” after that.

The panda bond market has expanded with the opening-up of the Chinese capital market and the internationalization of the RMB.



III. Interbank Panda Bond Market

Overview of interbank panda bond market

In an effort to promote panda bond market development, PBC and Ministry of Finance jointly released the *Interim Measures for Administration of Bond Issuance by Overseas Institutions in the National Inter-bank Bond Market(PBC and MOF Notice [2018] No.16)* in September 2018.

NAFMII then released the *Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (for Trial Implementation)* in January 2019.

By the end of 2020, 74 overseas issuers have either approved or registered to issue in Chinese interbank bond market. The total panda bond registration amounts in China interbank market stood at 769 billion yuan and the issuance volume exceeded 311 billion yuan.

Type of Issuers	Registration Quota (billion RMB)	Issuance Volume (billion RMB)
International Development Organization	60	20
Government	49.46	20.96
Financial Institution	74.5	33.5
Non-financial Enterprise	566.15	230.99
Total (RMB denominated bonds)	750.11	305.45
IBRD	18.63 (SDR 2 billion)	4.65 (SDR 0.5 billion)
Standard Chartered(HK)	0.93 (SDR 0.1 billion)	0.93 (SDR 0.1 billion)
Total in RMB (RMB and SDR denominated bonds)	769.67	311.03

III. Interbank Panda Bond Market

Panda bond issuers type

Issuer Type	Definition	Registration/ Approval Body	Bond Type	Representative Issuers
International development institution	Multilateral, bilateral and regional international development financial institutions engaged in development financings and investments	Issuer should register with NAFMII	RMB bond	AIIB, IFC , ADB, NDB
Foreign government	sovereign governments, local governments, and institutions with government functions, etc.	Issuer should register with NAFMII	RMB bond	Republic of Poland, Hungary, Republic of Korea, Province of British Columbia Canada
Financial institution	Financial institution legally registered outside China	Issuer should get approval from PBC	Financial institution bond	HSBC(HK) , National Bank of Canada , Wing Lung Bank
Non-financial enterprise	non-financial enterprise legally incorporated outside China with independent corporate status	Issuer should register with NAFMII	Debt financing instrument	Daimler AG, BMW AG, Veolia Environment Group, Air Liquide, Trafigura Group, China Merchants Group

III. Interbank Panda Bond Market

Development objectives

- A market with integrity for high-quality issuers
- Transparency and efficiency
- Innovation and risk control



III. Interbank Panda Bond Market

List of Rules for Panda Bond Market

PBC

1. The Interim Measures for Administration of Bond Issuance by Overseas Institutions in the National Interbank Bond Market (*the Measures*), Announcement No.16[2018] of PBC and Ministry of Finance (MOF) (September 2018)(detailed elaboration can be found in latter part of this powerpoint)
 - Foreign government agencies, international development institutions, financial institutions and non-financial enterprises issuing bonds in China Interbank Bond Market shall subject to the *Measures*.
2. Notice of the General Office of the People's Bank of China on Matters concerning RMB Bonds Issued within China by Overseas Institutions, No. 258 [2016] of the General Office of the People's Bank of China
 - Regulating RMB account opening and cross-border RMB settlement in connection with panda bond issuances

III. Interbank Panda Bond Market

List of Rules for Panda Bond Market (cont'd)

NAFMII

1. Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises (2020)(the *Guidelines*)
2. Detailed Rules for the Administration of Tiered Management of Debt Financing Instruments of Overseas Non-Financial Enterprises
3. Form Requirements for Registration Documents for Debt Financing Instruments of Overseas Non-Financial Enterprises
4. Other applicable self-regulatory rules of NAFMII
 - Matters not expressly provided for under the above-mentioned *Guidelines* shall be governed by applicable self-regulatory rules of NAFMII.

III. Interbank Panda Bond Market

Overview of the *Measures*

Chapter I General Provisions: “Overseas issuers” in this context could be foreign governmental agencies, international development institutions, financial institutions or non-financial enterprises



Chapter IV Information Disclosure: accounting standards and auditing requirements



Chapter II Application for Issuance : the issuers and the respective registration/approval authority, qualifications for overseas financial institutions to issue bonds



Chapter V Miscellaneous: requirements for intermediary institutions(i.e. accounting firms, law firms, and credit rating agencies, etc..)



Chapter III Bond Issuance, Registration, Custody and Settlement arrangements: issuance in multiple series, registration and custody, foreign exchange registration, etc.



Chapter VI Supplementary Provisions: *The Measures is applicable, mutatis mutandis, to Issuers from Hong Kong SAR, Macau SAR and Taiwan(China).*



III. Interbank Panda Bond Market

Overview of the *Measures* (cont'd)

Foreign government agencies and international development institutions



Resignation for raising debt in interbank bond market shall submit application to NAFMII. This category of issuers shall not be a newcomer in capital markets and shall have sound debt repayment ability.

Overseas non-financial enterprises



Submit application to NAFMII for issuing debt financing instruments in interbank bond market.

Overseas financial institutions



Obtain approval from PBC to raise funds in interbank bond market.

III. Interbank Panda Bond Market

Overview of the *Measures*: accounting standards

Public Offering

Enterprise issuer shall include a notice paragraph at a prominent place in the offering circular and its financial statements to clearly state adopted accounting standards. If its financial statements are not prepared in accordance with the Chinese Accounting Standards for Business Enterprises (“ASBE”) or the Equivalent Accounting Standards, such issuer shall provide the following supplemental information:

- (1) for international development institutions, a description of material differences between the accounting standards adopted by the issuer and the ASBE; and
- (2) for financial institutions and non-financial enterprises, (1) + information on reconciliation to the ASBE, indicating the amounts of financial impact of the differences between the accounting standards on all the material items in its financial statements.

Accounting standards recognized by the Ministry of Finance (“MOF”) as equivalent to the ASBE

- **EU IFRS**
- **HKFRS**

III. Interbank Panda Bond Market

Overview of the *Measures*: accounting standards(cont'd)

Private Placement

- Issuers may negotiate with the qualified institutional investors on the accounting standards under which financial statements are prepared. Risks involved therein shall be fully disclosed to investors, and investment risks associated with decisions made based on issuer's disclosure should be borne by investors.

III. Interbank Panda Bond Market

Overview of the *Measures*: auditing requirements

Requirements for accounting firms

- An overseas issuer offering bonds which has adopted **the ASBE** in preparation of its financial statements shall engage an accounting firm, which is qualified for conducting securities and futures related business in the PRC, to audit its financial statements.
- An overseas issuer offering bonds which has adopted **other accounting standards** in preparation of its financial statements shall have its financial statements audited by accounting firm(s) qualified for conducting the securities and futures related business in the PRC or overseas accounting firms meeting the requirements of the Measures.
- The information on reconciliation to the ASBE provided by overseas issuers shall be attested to by a PRC accounting firm which possesses the qualification to conduct the securities and futures related business in the PRC.

III. Interbank Panda Bond Market

Overview of the *Measures*: auditing requirements(cont'd)

Supervision and Filing

- The overseas accounting firm(s), engaged by an overseas issuer to audit its financial statements in connection with bond issuance in the PRC, shall be **subject to supervision by the MOF and shall make a filing with the MOF** in accordance with the relevant requirements.
- If the jurisdiction in which the overseas accounting firm is located has entered into **an agreement with the MOF on audit regulatory equivalence, or an audit regulatory cooperation agreement** specified for bond issuance, the supervision of such overseas accounting firm(s) will be performed according to such agreement.
- The overseas accounting firm(s) shall **make a filing with the MOF** no later than 20 business days prior to the submission of an application for the bond issuance by the overseas issuer and make annual filings with the MOF during the life of the bonds.

III. Interbank Panda Bond Market

Overview of the *Measures*

Use of proceeds

Overseas issuers approved or registered to issue bonds in the PRC shall complete applicable **foreign exchange registration**. The **account opening, fund remittances and transfers, cross-border settlements and information reporting** in connection with the proceeds shall be in compliance with relevant rules of PBC and the State Administration of Foreign Exchange.

Issuing bonds in multiple series

Foreign governmental agencies, international development institutions and overseas financial institutions (which are legal persons) that are seasoned issuers on overseas markets or that have issued bonds in the PRC and complied with the ongoing disclosure obligations for more than one year may apply to issue bonds in multiple tranches up to a total amount.

III. Interbank Panda Bond Market

Overview of the *Measures*

Legal opinions

The legal opinions issued in connection with the issuance of bonds by overseas issuers shall be issued by a qualified PRC law firm and by a law firm **qualified in the home jurisdiction of the issuer** or other legal counsel.

Investor protection

Overseas issuers shall establish the investor protection mechanisms and engage an entity within the PRC which is independent from the issuer to safeguard the interest of bondholders during the life of the bonds.

Credit rating

The credit rating reports published in connection with bond offerings by overseas issuers shall be issued by the **recognized credit rating agencies** qualified to conduct rating business on the National Interbank Bond Market.

III. Interbank Panda Bond Market

Panda bonds issued by overseas non-financial enterprises



Definition

- “Debt financing instruments of overseas non-financial enterprises” means debt financing instruments registered with NAFMII and issued by non-financial enterprises registered or incorporated outside of the PRC with an independent legal-person status.
- Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises shall apply, *mutatis mutandis*, to the issuance of debt financing instruments by enterprises incorporated in the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.



Self-regulation

- Overseas non-financial enterprises issuing debt financing instruments shall be subject to the self-regulatory supervision by NAFMII and comply with self-regulatory rules of NAFMII .

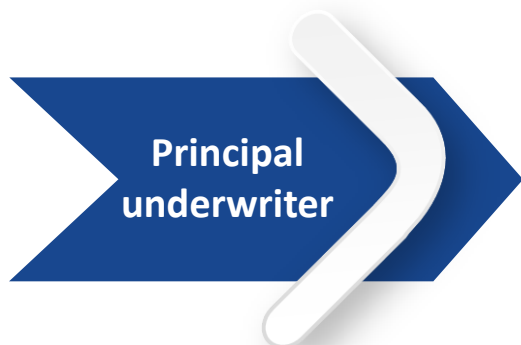


Issuance methods

- Public offering (requirements of the Tier 2 enterprises shall apply)
- Private placement (N+X system may be used)

III. Interbank Panda Bond Market

Panda bonds issued by overseas non-financial enterprises(cont'd)



- Debt financing instruments issued by overseas non-financial enterprises shall be underwritten by financial institution(s) possessing the relevant qualification to act as underwriter(s) for debt financing instruments.
- At least one of the principal underwriter(s) shall have a subsidiary or branch in the country or region where the non-financial enterprise is incorporated or the principal place of its business is located, or make other necessary arrangements, to ensure that such principal underwriter(s) have the capability to perform its duties including conducting due diligence.

III. Interbank Panda Bond Market

Panda bonds issued by overseas non-financial enterprises(cont'd)

Industrial distribution

chip manufacturing, energy, environmental protection, automotive, port, pharmaceutical, power, warehousing and logistics, transportation and consumer goods.

Maturity structure

The tenor of panda bonds usually ranges from 270 days to 10y, with the 3y and 5y dominating the issuance.

Product types

MTN

CP

SCP

PPN



III. Interbank Panda Bond Market

Panda bonds issued by overseas non-financial enterprises(cont'd)

Registration Documents

	Public offering	Private placement
1	A registration report (attaching the issuer' s certificate of incorporation, constitutional documents, and the resolutions of its competent decision-making body or other evidencing document(s))	
2	a letter of recommendation from each principal underwriter	
3	an offering circular	a private placement agreement or a private placement offering circular
4	the audited financial statements for the most recent three financial years, and the latest interim financial statements (if any)	the audited financial statements for the most recent two financial years, and the latest interim financial statements (if any)
5	legal opinions issued by a PRC law firm and a law firm qualified in the issuer' s home jurisdiction, respectively	
6	a consent letter from the issuer' s overseas auditors (if applicable)	
7	a credit rating report and credit tracking assessment arrangements (if available)	
8	other documents as required by NAFMII	

III. Interbank Panda Bond Market

Overview of Guidelines on Debt Financing Instruments of Overseas Non-Financial Enterprises

The *Guidelines* consists of 6 chapters and 36 articles

Chapter I. General Provisions:

basis for formulation, definition, self-regulation.



Chapter IV Use of Proceeds:

use of proceeds, account opening, disclosure of the use of proceeds.



Chapter II Registration and Issuance:

requirements on the registration, issuance, the qualification of the principal underwriters, validity period of the registration, review before the issuance, etc.



Chapter V Information Disclosure:

The information disclosure requirement during the issuance period and the ongoing disclosure requirement of the public offering and private placement



Chapter III Requirements on Registration Documents:

specifying the registration documents of public offering and private placement.



Chapter VI Miscellaneous:

The application of law, the application of the *Guidelines*, Self-regulatory disciplinary actions, effective date and interpretation.



III. Interbank Panda Bond Market

Tiered management of debt financing instruments of overseas non-financial enterprises

Criteria for seasoned overseas enterprise issuer



international influence

- market recognition
- industry position
- track of credit record



information disclosure

- public listing on securities exchanges
- ongoing public disclosure
- experience in debt offerings



financial condition

- size
- capital structure
- profitability



Negative list

- defaults of debt securities
- violation of laws or regulations
- restricted from conducting debt financing

III. Interbank Panda Bond Market

Tiered management of debt financing instruments of overseas non-financial enterprises (cont'd)

Working mechanism for seasoned overseas enterprise issuer

One set of registration documents for universal registration (DFI Registration)

may determine the product type, offering size and tenor of each series of debt financing instruments at the time of offering.

NAFMII's feedback

NAFMII gives first round feedback within 10 working days, and following-up feedback within 3 working days.



Syndicate of principal underwriters

May mandate up to 4 principal underwriters and joint lead underwriters for public offering depending on issuance volume.

Information disclosure

<Form Requirements for Information Disclosure in Offering Circulars of Seasoned Overseas Enterprise issuer>
In line with international information disclosure standards in overseas markets

III. Interbank Panda Bond Market

Tiered management of debt financing instruments of overseas non-financial enterprises (cont'd)

Syndicate of principal underwriters

DFI registration or SCP registration

may form a syndicate of principal underwriters at the time of registration. may mandate up to four underwriters for an offering of a single series depending on its issuance volume.

Registration for other types of debt financing instruments separately

may form a syndicate consisting of up to four principal underwriters at the time of registration. may mandate up to four underwriters for an offering of a single series depending on its issuance volume.

Registration for private placement notes

may form a syndicate of principal underwriters at the time of registration. No requirement for number of underwriters for an offering of a single.

issuance volume \geq RMB5 billion :
Up to 4 underwriters ;

RMB3 billion \leq issuance volume
RMB5 billion :
Up to 3 underwriters ;

Any other circumstances:
Up to 2 underwriters.

III. Interbank Panda Bond Market

Tiered management of debt financing instruments of overseas non-financial enterprises (cont'd)

A seasoned overseas enterprise issuer shall disclose information in its public offering circulars in accordance with the relevant requirements under **the *Form Requirements for Information Disclosure in Offering Circulars of Overseas Seasoned Enterprises*** (the form) which is in line with international information disclosure standards in overseas markets.

□ Appropriately simplify disclosure requirements for classification of risk factors; use of proceeds; basic information of issuers such as historical evolution, controlling; financial status such as stand-alone financial statements and accounting analysis.

□ Appropriately enhance disclosure requirements such as important notice of special provisions.

III. Interbank Panda Bond Market

Tiered management of debt financing instruments of overseas non-financial enterprises (cont'd)

- Where an overseas parent company (a seasoned overseas enterprise) provides unconditional and irrevocable joint liability guarantee to its wholly-owned financing subsidiary (the issuer), the guarantor shall disclose information in accordance with the Form. The issuer may simplify the disclosure appropriately.
- Seasoned overseas enterprise registering private placement notes and unseasoned overseas enterprises shall disclose information in their offering circulars in accordance with relevant disclosure requirements for domestic issuers.
- Prior to an issuance, underwriter(s) and issuer shall check and determine, in accordance with, **Checklist for Refiling by Overseas Enterprises with the Registration Meeting of NAFMII**, whether refiling with the Registration Meeting is triggered.

III. Interbank Panda Bond Market

Key points of panda bonds registration by overseas non-financial enterprises: use of proceeds and foreign debt quota



The proceeds from the issuance of debt financing instruments may, in accordance with applicable laws, regulations and regulatory requirements, be used within or outside the PRC.



The account opening, cross-border settlements, and information reporting shall be in compliance with relevant rules of PBC and the State Administration of Foreign Exchange. (No. 258 [2016] of the General Office of the People's Bank of China-)



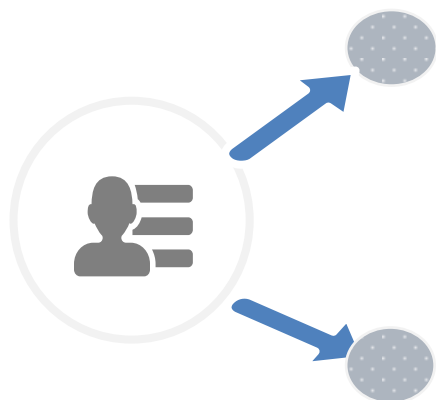
If there is a need to change the use of proceeds during the life of the debt financing instruments, the issuer shall complete relevant procedures.

III. Interbank Panda Bond Market

Key points of panda bonds registration by overseas non-financial enterprises: use of proceeds and foreign debt quota (cont'd)

Q: If the proceeds of RMB bonds issued by the overseas non-financial enterprises are re-lent to domestic subsidiaries, will the proceeds be counted in the foreign debt quota of the domestic subsidiaries?

A: It depends on foreign debt management mode adopted by domestic subsidiaries.



“The difference between investment and registered investment mode”:

It will be counted towards the difference between total investment and registered capital of the domestic subsidiaries

“Macro-prudential management mode of foreign debt”:

PBC: “the proceeds raised by the overseas parent companies of non-financial enterprises issuing debt, if re-lent to domestic subsidiaries”, shall be excluded from the calculation of risk-weighted outstanding cross-border financing.

III. Interbank Panda Bond Market

Key points of panda bond registration by overseas non-financial enterprises: information disclosure during the bond life



Periodic information disclosure:

- Overseas non-financial enterprises shall periodically disclose relevant financial information. The information disclosure during the life of the debt financing instruments shall be specified in the registration and offering documents in accordance with, mutatis mutandis, the Rules for Information Disclosure on Debt Financing Instruments of Non-Financial Enterprises in the Interbank Bond Market (“ Information Disclosure Rules”).
- Financial information disclosed by an overseas non-financial enterprise on other securities markets shall also be disclosed in the National Interbank Bond Market.

III. Interbank Panda Bond Market

Key points of panda bond registration by overseas non-financial enterprises: information disclosure during the bond life (cont'd)

2

Disclosure of material events:

- During the life of the debt financing instruments issued by an overseas non-financial enterprise, upon the occurrence of any material event that may affect the repayment ability of such issuer, any corrections to errors in the disclosed information or any modifications to accounting policies or accounting estimates, such event shall be disclosed on a timely basis.
- The definition of “material events” in this Article shall be specified in the registration and offering document in accordance with, mutatis mutandis, the definition of “material events” in the Information Disclosure Rules.
- Material events disclosed by an overseas non-financial enterprise on other securities markets shall also be disclosed on the National Interbank Bond Market.

III. Interbank Panda Bond Market

Key points of panda bond registration by overseas non-financial enterprises: language

Public Offering

- **In the issuance process:**

- The documents disclosed shall be in Chinese (simplified Chinese, here and below) or accompanied by a Chinese version.
- Articles of association, business license and other documents not disclosed to the public can be provided in English only.

Private Placement

- **In the issuance process:**

- The principal registration and offering documents shall be in Chinese or accompanied with a Chinese version.
- Other documents may be disclosed in either Chinese or in English as agreed between the issuer and the investors participating in such private placement.

III. Interbank Panda Bond Market

Key points of panda bond registration by overseas non-financial enterprises: language (cont'd)

Public Offering

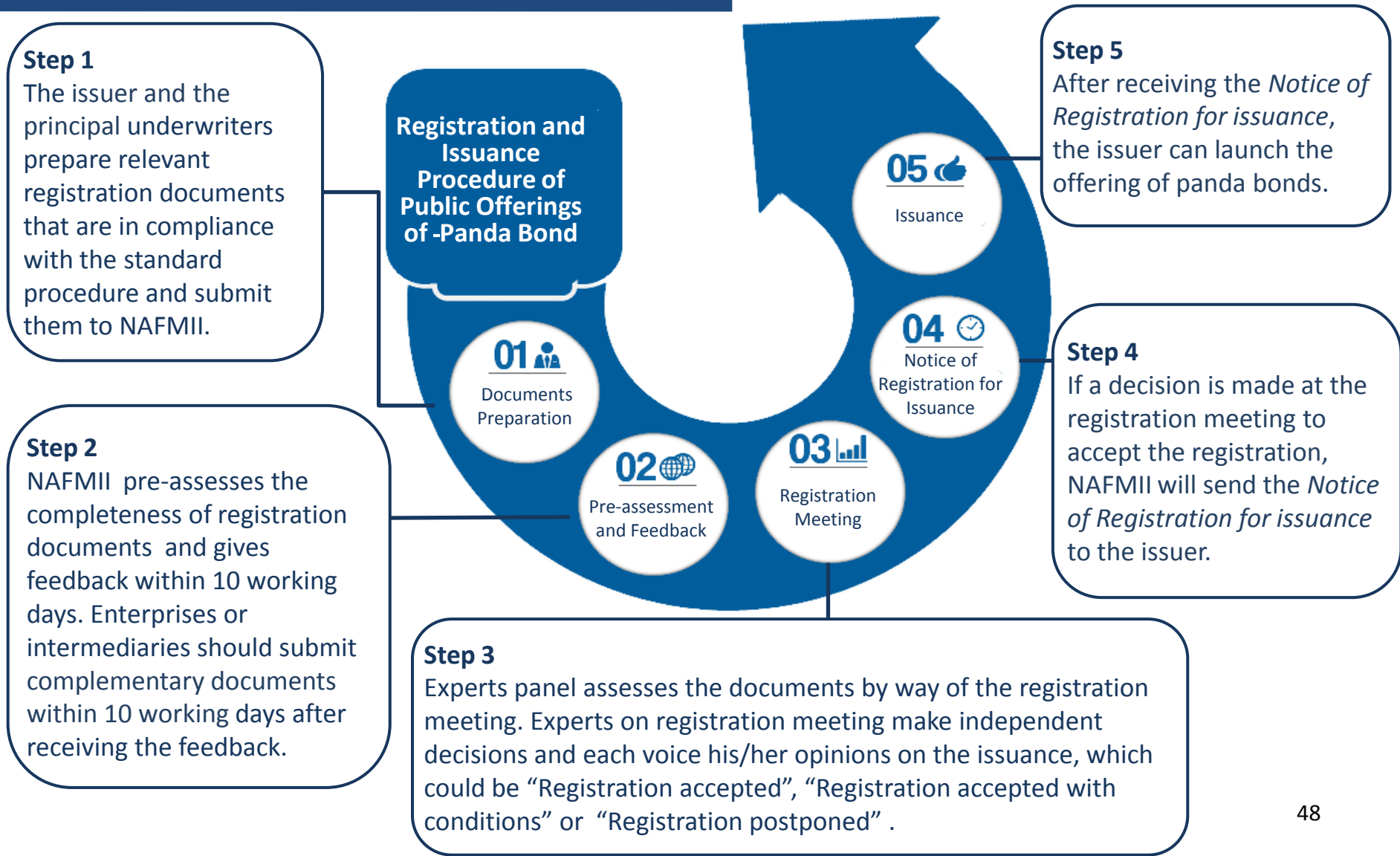
- **During the life of the debt financing instruments:**
 - In Chinese as a general principle.
 - Where an overseas non-financial enterprise periodically discloses information in English on other securities markets, it shall, simultaneously or as soon as reasonably practicable thereafter, disclose such information in English on the National Interbank Bond Market and disclose the Chinese version of the key contents of such information in accordance with the timeline set forth in its registration and offering documents.

Private Placement

- **During the life of the debt financing instruments:**
 - Information disclosure during the life of such debt financing instruments may be made in Chinese or in English as agreed between the issuer and the investors. Where there is no such agreement between the issuer and the investors, the overseas non-financial enterprise shall comply with, *mutatis mutandis*, the public offering process.

III. Interbank Panda Bond Market

Registration and issuance procedure of non-financial enterprises panda bond in CIBM – public offering



III. Interbank Panda Bond Market

Registration and issuance procedure of non-financial enterprises panda bond in CIBM – private placement

Step 1

The issuer and the principal underwriters prepare registration documents that are in compliance with the standard procedure and submit them to NAFMII.

Step 2

NAFMII will assess and re-assess the registration documents and gives feedback within 10 working days. Enterprises or intermediaries should submit complementary documents within 10 working days after receiving the feedback.

Registration and Issuance procedure of private placement of panda bond

01

Documents Preparation

02

Initial Assessment and Reassessment

04

Issuance

03

Notice of Registration for Issuance

Step 4

After receiving the *Notice of Issuance*, the issuer can launch the first panda bond issuance.

Step 3

After the initial assessment and reassessment, NAFMII will send the *Notice of Registration for Issuance* to the issuer.

III. Interbank Panda Bond Market

RMB bonds issued by foreign governmental agencies and international development institutions

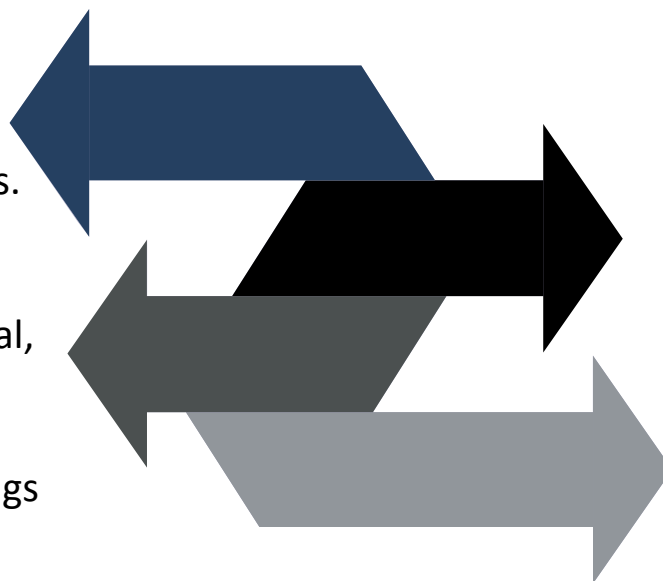
Definition

A “foreign governmental agency” means the government of a sovereign country, a foreign local government or an agency performing government functions.

An “international development institution” means any multilateral, bilateral or regional international development financial institution that makes development financings and investments.

Registration

Foreign governmental agencies and international development institutions issuing bonds on the National Interbank Bond Market shall apply to the NAFMII for registration.



Name of the bond
RMB bond

Requirements of the issuance

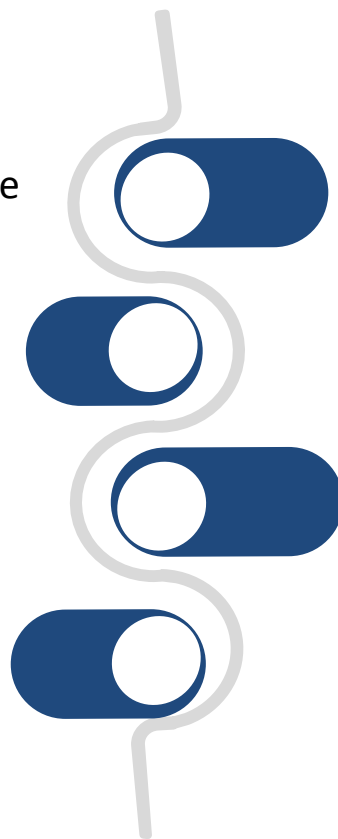
Foreign governmental agencies and international development institutions shall have experience in debt offerings and sound debt repayment ability.

III. Interbank Panda Bond Market

RMB bonds issued by foreign governmental agencies and international development institutions (cont'd)

Principal underwriters

Foreign governmental agencies and international development institutions may form a principal underwriter syndicate in the registration stage, and designate one lead underwriter for each offering in the offering stage. The lead underwriter shall have experience in acting as a principal underwriter for Debt Financing Instruments issued on the Interbank Bond Market. Other principal underwriters and underwriters shall have experience in underwriting bonds in the PRC domestic markets



Information Disclosure

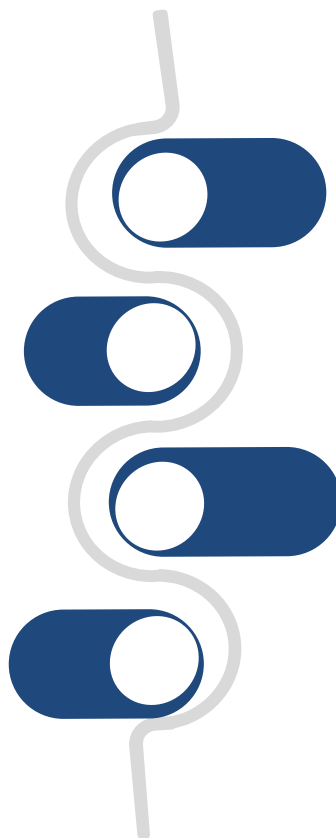
Issuers shall disclose information prior to the issuance and during the life of the bonds in accordance with the applicable requirements under the National Interbank Bond Market regulations.

III. Interbank Panda Bond Market

RMB bonds issued by foreign governmental agencies and international development institutions (cont'd)

The requirements for issuing bonds in multiple series

Foreign governmental agencies and international development institutions that are seasoned issuers on overseas markets or have issued bonds within the PRC and fulfilled ongoing disclosure obligations for more than one year may, within the total registration amount, apply to issue bonds from time to time in multiple tranches.



Use of proceeds

The account opening, fund remittances and transfers, cross-border settlements and information reporting in connection with the proceeds shall be in compliance with relevant rules of PBC and the State Administration of Foreign Exchange. (No. 258 [2016] of the General Office of the PBC)

III. Interbank Panda Bond Market

RMB bonds issued by foreign governmental agencies and international development institutions (cont'd)

Registration documents

	Public offering	Private placement
1	A registration report	
2	a letter of recommendation from each principal underwriter	
3	the authorization document(s) approving the proposed issuance	
4	an offering circular	a private placement agreement or a private placement offering circular
5	the financial statements (audited) or economic data report for the most recent three fiscal years (or for a shorter period of time since the establishment of the issuer), and the latest interim financial statements or economic data report (if any)	the financial statements (audited) or economic data report for the recent two fiscal years (or for a shorter period of time since the establishment of the issuer), and the latest interim financial statements or economic data report (if any)
6	legal opinions issued by a law firm in the issuer's home country or region (or the justice department or an authorized and qualified internal legal counsel of the issuer) and by a PRC law firm	
7	a consent letter from the issuer's auditors (if applicable)	
8	a credit rating report and follow-up rating arrangements (if available)	
9	other documents as required by NAFMII	

III. Interbank Panda Bond Market

Representative Cases

CASE: The World Bank



The World Bank (International Bank for Reconstruction and Development, IBRD) issued its first **Special Drawing Rights (SDR)-denominated bond** in China Interbank Bond Market.

Issuance Volume: SDR 500 million (approximately equivalent to USD 700 million)
Maturity: 3 years
Coupon: 0.49% per annum. Payments in RMB.

CASE: Republic of Poland



Registration Quota: RMB 6 billion
First Issuance : RMB 3 billion bond with 3-year maturity and coupon rate of 3.40%.
Innovation: This is the first panda bond issued by an European government.

CASE: HSBC (HK)



Approved Quota: RMB 1 billion
First Issuance : RMB 1 billion financial institution bond with 3 year maturity and coupon rate of 3.50%.
Innovation: This financial institution bond is the first panda bond issued by a foreign financial institution.

CASE: Daimler AG



Registration Quota: RMB 5 billion (2013)
RMB 20 billion (2016)

Latest Issuance : RMB 1 billion private placement note with 3-year maturity
Innovation: Daimler AG is the first non-financial enterprise panda bond issuer.

CASE: China Merchant Group



Registration Quota: RMB 3 billion
First Issuance : RMB 500 million commercial paper with 1-year maturity and coupon rate of 3.03%.
Innovation: This commercial paper is the first non-financial enterprise panda bond issued by public offering.

CASE: New Development Bank



Registration Quota: RMB 10 billion
On February 25, 2019, the NDB successfully placed its debut CNY 3 billion bond in China Interbank Bond Market. The bond was placed in two tranches with maturities of 3 years (CNY 2bn) and 5 years (CNY 1bn) and it was priced at the lower end of announced pricing range with coupon rates of 3% and 3.32% respectively.

Thank you for your support for the work of NAFMII.



中国银行间市场交易商协会
National Association of Financial Market Institutional Investors