

**Rules of China Central Depository & Clearing Co., Ltd. for
Bond Trading and Settlement**

CCDC [2005] No. 76

All settlement participants,

The *Rules of China Central Depository & Clearing Co., Ltd. for Bond Trading and Settlement* (see the Appendix) formulated by CCDC has been approved by the People's Bank of China (PBC Reply [2005] No. 61) and is hereby released for immediate implementation, which will supersede the original *Interim Rules for Bond Trading and Settlement in the Inter-bank Market* and the *Rules for Bond Trading and Settlement in China's Inter-bank Market (Revised Edition)*.

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Chapter I General Provisions

Article 1 The Rules are formulated pursuant to pertinent laws and regulations and relevant rules of the Administrative Measures for Bond Trading in China's Inter-bank Bond Market promulgated by the People's Bank of China (the "PBC"), for the purpose of regulating the conduct of all participants in bond trading and settlement, protecting the legitimate rights and interests of market participants and ensuring the orderly operation of trading and settlement of China's Inter-bank bond market (CIBM).

Article 2 China Central Depository & Clearing Co., Ltd. ("CCDC") is a bond settlement institution in CIBM designated by the PBC, to provide settlement services for the bond trading in the said market.

Article 3 In the Rules, the terms shall have the meaning set out below:

- i. Bonds mean various book-entry bonds tradable in CIBM.
- ii. Central Bond Book-entry System (the "book-entry system") means an electronic accounting processing system developed, operated and managed by CCDC to handle bond registration, depository, settlement, redemption and other relevant services.
- iii. Payment system means the large-value transfer system of China National Automatic Payment System of the PBC.
- iv. Spot bond trading means two parties agree to transfer ownership of bond at a fixed price on T+0 or T+1.
- v. Bond collateral repo (the "collateral repo") means the financing activities in which the borrower (repurchasing party) that borrows from the lender (reverse repurchasing party) money backed by the pledged bond, agrees to repay funds at specified repurchase rate at some future date and the reverse repurchasing party releases the bond pledge for the repurchasing party.

vi. Bond outright repo ("outright repo") means a transaction in which the bond holder (repurchasing party) that sells bond to the bond buyer (reverse repurchasing party), agrees to buy back the same quantity of the bond from the reverse repurchasing party at a fixed price at some future date.

vii. Bond seller means the seller in a spot bond transaction, i.e. the repurchasing party in the initial repo settlement and the reverse repurchasing party in the repo settlement at maturity.

viii. Bond buyer means the buyer in a spot bond transaction, i.e. the reverse repurchasing party in the initial repo settlement and the repurchasing party in the repo settlement at maturity.

ix. Delivery date means the settlement execution date appointed by both bond trading parties. Repo delivery date includes the initial delivery date and the date of delivery at maturity.

Chapter II Settlement Participant

Article 4 Any institutional investor meeting the relevant market access requirements of the competent department may open a bond account with CCDC and become its settlement participant to join in the bond trading and settlement in CIBM. When a settlement participant opens a bond account, it must sign a Customer Service Agreement with CCDC.

Article 5 Settlement members are divided into type-A members, type-B members and type-C members, depending on the qualifications for and ways of participation in bond settlement. Type-A members are the settlement participants entitled to engage in the business relating to proprietary and agency bond settlement; type-B members are the settlement participants which are only allowed to engage in the business relating to proprietary bond settlement; type-C members are the settlement participants which need to commission type-A members to deal with proprietary bond settlement and relevant business on their behalf.

Article 6 Type-A and type-B participants are direct settlement participants, and type-C members are indirect settlement participants. A direct settlement participant shall be equipped with a book-entry system settlement participant terminal (the "customer terminal") with the electronic identity authentication mechanism to conduct business operations via the customer terminal.

Article 7 The handling personnel of direct settlement participants are divided into authorization management personnel and business handling personnel. Authorization management personnel and business handling personnel may conduct bond settlement operation via the customer terminal after being trained by CCDC and having passed examination and obtained the qualification certificate and having been registered with the book-entry system.

Article 8 There should be at least two authorization managers. The registration of the authorization managers is handled by CCDC according to the power of attorney of legal representative and related materials submitted by the settlement participants. The registration and business authority management of business handling personnel are handled by the authorization managers via the customer terminal or entrusted, in writing, to CCDC.

Article 9 The materials of settlement participants, except for the name of bond account, legal representative, authorization manager and fund remittance path, can be modified by their authorization managers via the customer terminal.

Article 10 When a settlement participant agrees to terminate its membership, it shall cancel its bond account in CCDC. At the time of cancellation, the bond balance in the bond account of the settlement participant must be zero, and there is no outstanding creditor-debtor relation or payable service charges. The removal and the customer terminal and the cancellation of the bond account shall be handled simultaneously.

Chapter III Trading and Settlement Methods and Settlement Business

Article 11 CCDC provides bond settlement services for the bond trading between settlement participants and the open market business of the PBC. Bond settlement of open market business of the PBC shall be handled according to the regulations of the PBC.

Article 12 CCDC provides the following four settlement methods:

- i. Delivery versus payment ("DVP") means a settlement method in which both settlement parties simultaneously handle bond delivery and payment and settlement are mutually conditional.
- ii. Payment after delivery ("PAD") means a settlement method in which the bond buyer makes payment to the bond seller after confirming the payable bonds of the bond seller are sufficient, and requests CCDC to handle the bond delivery.
- iii. Delivery after payment ("DAP") means the settlement method in which the bond seller confirms receipt of the funds payable by the bond buyer, and requests CCDC to handle the bond delivery.
- iv. Free of payment ("FOP") refers to a settlement method in which both sides of transaction settlement only require CCDC to handle bond delivery, but settle settlement funds on their own.

Settlement participants shall fully understand the characteristics of the settlement methods above and prevent related risks.

Article 13 In case of the DVP settlement method, the bank which opens a fund account for the settlement participant, as the payer, must be a direct participant in the payment system. If the account bank is the settlement participant, it must sign an Agreement on Bond Trading DVP Settlement with CCDC in advance; if the account bank is not the settlement participant, the settlement participant (i.e. the "principal"), the account

bank (i.e. the fund clearing agency bank) and CCDC shall sign a Tripartite Agreement on Bond Trading DVP Settlement in advance.

Article 14 Based on the operating rules of the payment system, the bond trading and settlement between two settlement participants of the same account bank shall not adopt the DVP settlement method by the payment system.

Article 15 Spot bond trading and settlement is handled as per a single bond by any of the settlement methods.

Article 16 Pledged bonds in the outright repo settlement can be a single bond or multiple bonds. The initial settlement of the outright repo trading must select the PAD or DVP settlement method, and the settlement at maturity shall select the DAP or DVP settlement method.

Article 17 When handling the outright repo trading and settlement, both settlement parties may agree to use the bonds in the specified categories and quantity as the performance guarantee in the initial settlement. Bonds used as performance guarantee in the repo period will be pledged in the bond account of the bond seller, and will be released in the normal settlement at maturity. Outright repo trading adopts such settlement methods as DVP, PAD or DAP.

Article 18 The bonds in outright repo trading and those used in performance guarantee must be a single bond.

Article 19 With respect to the other bond trading tools approved by the PBC, relevant settlement rules will be formulated separately.

Chapter IV Trading and Settlement Instructions and Contracts

Article 20 trading and settlement instruction ("settlement instruction") is a formal entrustment that a settlement participant requests CCDC to handle bond trading and settlement and related services.

Article 21 Settlement instructions include basic instructions and auxiliary instructions. Basic instruction is the requirements on the counterparty's receipt of bonds or payment and the commitment on payment or delivery of bonds; auxiliary instruction is an instruction on supplementary confirmation, alteration or cancellation of related basic instructions.

Article 22 Basic instructions include spot bond instructions, collateral repo instruction, outright repo instruction and special counter settlement instructions.

Article 23 Auxiliary instructions include direct debit confirmation instruction, receipt confirmation instruction, payment confirmation instruction, modification instruction, cancellation instruction, cancellation contract instruction, and overdue resale instruction.

Article 24 The elements of a basic instruction include the depository account number of the instruction sender, the depository account number of the counterparty, business type, trading direction, settlement method, bond code, par value of bond, settlement amount, delivery day, business identification number, the handler, the checker and setting of security bonds/margin.

The unit of the par value of bond is RMB10, 000 with four decimal places; the settlement amount is RMB with two decimal places.

Article 25 The execution states of a settlement instruction in the book-entry system include "to be reviewed", "to be confirmed", "successful", "illegal", "canceled" and "nullified".

Article 26 Settlement contract is generated by the settlement instructions, in which all elements are consistent and have passed the legality check in the book-entry system and have been confirmed by sides of settlement. It is the formal basis whereby CCDC handles bond settlement.

Article 27 Settlement contracts are divided into basic contracts and auxiliary contracts, of which basic contracts are generated by basic instructions, and auxiliary contracts by auxiliary instructions.

Article 28 Basic contracts include spot contract, initial collateral repo contract, contract for collateral repo at maturity, initial outright repo contract, contract for outright repo at maturity and special counter settlement contract.

Article 29 Auxiliary contracts include receipt confirmation contract, payment confirmation contract, direct debit confirmation contract, instruction cancellation contract and contract-rescission contract.

Article 30 The performance states of settlement contracts in the book-entry system include to be performed, waiting for bonds, waiting for payment, successful, failed, overdue completion, repaid, nullified and canceled.

Chapter V Handling of Trading and Settlement

Article 31 Settlement participants must ensure their trading and settlement is operated by authorized handlers. Handlers shall use the settlement instructions, corresponding to the types of the trading and settlement concerned, and timely, accurately and completely send or confirm the instructions via the customer terminal.

Article 32 The sending of settlement instructions is subject to the handler and checker system, and confirmation of such instructions is operated by one person.

Article 33 The settlement instructions of settlement participants are normally sent, generated and confirmed in the following several ways:

- i. Settlement instructions are sent by the bond sellers to the book-entry system and confirmed by the bond buyers;

ii. The distribution transfer instructions are sent to the book-entry system by the bond underwriters of other settlement participants which distribute bonds, and executed by the system after the legality check, without the need to be confirmed by the counterparty.

Article 34 When adopting the following settlement methods, take care to use corresponding auxiliary confirmation instructions:

i. In case of the DVP settlement method, both settlement participants may determine whether the account bank of the payer needs to directly debit and confirms the settlement payment. If the confirmation is not needed, the book-entry system will directly deal with the DVP settlement based on the settlement contract on the delivery day; if the confirmation is necessary, the account bank of the payer shall timely send a direct debit and confirmation instruction for the settlement contract on the delivery day, to confirm the debit and transfer of the settlement amount. When a settlement participant handles the immediate transfer of bond settlement via the fund clearing agency bank, it can only select to directly debit and confirm the settlement payment.

ii. In case of the PAD settlement method, the bond buyer shall timely send a payment confirmation instruction on the delivery day after making payment to the counterparty, provided that the counterparty's bonds are sufficient.

iii. In case of the DAP settlement method, the bond payer shall timely send a receipt confirmation instruction on the delivery date after receiving the payment from the counterparty.

Article 35 The book-entry system checks and handles the settlement instructions that have been received and confirmed, and prompts the settlement participants regarding the execution state of such instructions in a real time manner. The book-entry system generates settlement contracts for the instructions that have been confirmed with a state of "legal".

Article 36 Each element in all settlement contracts is unmodifiable. The contracts on repo at maturity and the settlement contracts with a state of "to be performed" on the delivery day are irrevocable.

Article 37 The book-entry system prompts settlement participants about the execution state of settlement contracts in a real time manner.

Article 38 With regard to the repo business, the book-entry system generates an initial settlement contract and a contract for settlement at maturity to be validated. After the initial settlement contract is successfully executed, the contract for settlement at maturity will come into force and shall be executed on the day of delivery at maturity.

Article 39 The procedures of the book-entry system for executing a "DVP" settlement contract are as follows: after the system confirms the "DVP" settlement contract is effective (in case of directly debiting and confirming the settlement payment, the book-entry system has received the direct debit and confirmation instruction from the account bank of the payer) and locks up, in the form of "payable", the bonds earmarked for settlement under the contract, it will generate immediate transfer messages based on the relevant information on both settlement parties under the settlement contract and the payment elements, and send the messages to the payment system; the payment system will give a feedback to the book-entry system according to the real time debit and credit transfer between the fund accounts of the two parties, and then the book-entry system will finish the bond settlement.

Article 40 Relevant settlement participants may obtain delivery orders via the customer terminal after the book-entry system completes settlement for each normal contract according to the elements specified under the settlement contract.

Chapter VI Handling of Abnormal Circumstances

Article 41 In case a settlement participant faces technical failure in the customer terminal which cannot be immediately resolved or it cannot

timely send a settlement instruction in electronic form via the customer terminal due to other problems, the settlement participant shall send an emergency instruction on settlement to CCDC by written fax in accordance with the Rules for Handling Emergency Settlement of Bond Trading, so as to commission CCDC to operate on its behalf.

Emergency settlement instructions are receivable during 9:00 a.m.-16:30 p.m. of each business day. Where the clearing window of the payment system is opened and a settlement participant needs to obtain clearing positions by bond trading, it must handle settlement in an emergency way, and the cut-off time for receiving emergency settlement instructions can be deferred to 17:10 p.m.

Article 42 The sender of settlement instructions may use modification instructions at the customer terminal to modify the settlement instructions to be reviewed or confirmed and illegal instructions.

Article 43 For the settlement instructions to be reviewed or confirmed, the sender may cancel them at the customer terminal through cancellation instructions.

Article 44 Except for the contracts for repo at maturity, the other settlement contracts to be performed before the delivery day can be canceled. Should an initial settlement contract for repo business be canceled, its corresponding contract for settlement at maturity shall also be canceled simultaneously.

When a settlement contract is required to be canceled, the bond seller shall send a contract cancellation instruction to the book-entry system via the customer terminal, and the book-entry system will handle it after being confirmed by the bond buyer.

Article 45 On the delivery day, if the balance of the bonds designated under an initial outright repo contract to be used in performance guarantee is sufficient in the bond account of one party, such contract shall be immediately nullified; all auxiliary contracts shall be

immediately nullified if elements or conditions cannot be satisfied and performance fails.

Article 46 At the end of the delivery day, if the conditions for the execution of a basic contract still cannot be satisfied, the available balance of bonds or fund used in bond settlement is insufficient, the book-entry system has not received relevant confirmation instructions (e.g. payment confirmation instruction), and there is no necessary auxiliary contract, the basic contract shall be nullified. In case of failure in the settlement of the initial repo contract, the contract for repo at maturity shall be nullified simultaneously.

Article 47 For the reasons of fund float, if a settlement contract that adopts the DAP settlement method is still waiting for payment at the end of the delivery day, the performance of such settlement contract is allowed to be postponed to the next working day after the delivery day; the settlement contract shall fail in case of failure to receive the confirmation of the bond seller by the end of the working day after the delivery day.

Article 48 In case of settlement failure, related settlement participant may obtain a failure notice through the customer terminal.

Article 49 When a collateral repo at maturity fails, if the reverse repurchasing party has received the money repaid by the repurchasing party and the contract for repo at maturity adopts the DAP settlement method, both settlement parties may handle it by way of overdue resale of collateral repo. Collateral repo overdue resale instructions are sent by the reverse repurchasing party to the book-entry system and confirmed by the repurchasing party.

Article 50 In case of temporary business interruption incurred by the failure of the book-entry system, CCDC will implement the Plan for Handling Emergency Settlement in the Failure of Central Bond Book-entry System in conjunction with settlement participant.

Chapter VII Settlement Business of Type-C Participant

Article 51 According to the regulations of the PBC, before a type-A participant, as the settlement agent, renders bond settlement agency services for a type-C participant, both parties must sign an agency settlement agreement. The formalities for a type-C participant to open a bond account shall be handled by a type-A participant entrusted by the type-C participant in CCDC.

Article 52 When a type-A participant modifies the information on a type-C participant using the type-C participant information alteration instruction at the customer terminal, it must obtain the written authorization from the type-C participant or observe the provisions of the agency settlement agreement.

Article 53 The type-A participant must faithfully send settlement instructions one by one according to the entrustment of the type-C participant to handle the bond settlement and related business on its behalf. The entrustment form and handover method agreed by both parties shall ensure the type-A participant may confirm the authenticity and legality of such entrustment.

Article 54 The payment remittance path for the bond trading and settlement of the type-C participant shall be arranged with the assistance of the type-A participant concerned.

Article 55 The type-A participant shall timely and completely deliver to the type-C participant various relevant documents issued by CCDC.

Article 56 The type-A participant shall keep secret the accounting information and other materials of the type-C participant that come to its knowledge when handling the bond business for the type-C participant.

Article 57 When the type-A participant handles settlement business in the capacity of settlement agent, it shall strictly designate personnel to handle

its proprietary bond settlement business and agency bond settlement business separately.

Article 58 If the type-C participant needs to replace its settlement agent, the type-A participant as the original settlement agent shall provide active assistance. Both parties must complete the various affairs that shall be concluded under the agency agreement, discharge the relevant expenses in relation to the agency bond settlement business, and deal with the replacement formalities after terminating the relationship under the agreement.

Article 59 After the type-A participant as a new settlement agent signs an agency agreement with a type-C participant, the type-A participant may send the settlement agent alteration instruction via the customer terminal. Upon confirmation by the type-A participant which is the original settlement agent, the alteration can be completed in the book-entry system. Uncompleted business will also be transferred after alteration of the settlement agent.

Article 60 Unless otherwise required by the laws and departmental rules and regulations, the fund custodian shall handle the background settlement business for the bond trading of the fund assets under its custody, with reference to the operating methods of settlement agency business.

Chapter VIII Accounting Inquiry, Statement of Account and Information Services

Article 61 Within the business hours, a direct settlement participant may inquire about, print and check its accounting data in a real time manner via the customer terminal, including details and state of the settlement instructions, details and state of settlement contracts, settlement business account, debt service account, settlement delivery order, delivery failure notice, statement of bond account, bond interest accrued and settlement and transfer expenses within the previous 13 months (inclusive of today).

At any time of the business hours, an indirect settlement participant may inquire about and print, via the bond voice and fax inquiry system of CCDC, its proprietary bond settlement business data and bond account balance of the same period as that mentioned above, and check them in time.

When a settlement participant inquires about its historical business data outside the time frame mentioned above, it shall file a written application to CCDC.

Article 62 If a settlement participant has doubt about its accounting data, it may apply to CCDC for verification.

Article 63 CCDC announces relevant bond market policies, laws, regulations, management rules and its various business rules and operating guidelines, as well as bond issuance information, bond listing date and elements, bond settlement information, bond interest payment and redemption, other business prompts and other public market information, and the encrypted information exclusively for settlement participants on www.chinabond.com.cn.

Article 64 Settlement participants may announce their information alteration to other settlement participants through www.chinabond.com.cn of CCDC, but shall ensure the authenticity and accuracy of the materials they provide.

Article 65 Settlement participants shall take strict measures to protect their own financial data acquired from the customer terminal from being divulged to a third party.

Settlement participants shall only use the encrypted information provided on www.chinabond.com.cn for their own business needs, and shall not divulge it to a third party.

Chapter IX Important Dates, Business Days and Operation Time of Book-entry System

Article 66 The start time and cut-off time of trading of the tradable bonds in CIBM shall comply with the provisions of the PBC. CCDC will prepare a trading element announcement for a bond before it becomes tradable, and publish it simultaneously with the National Inter-Bank Funding Center.

Article 67 The creditor's right record date of bond redemption at maturity is the cut-off transfer date, and no trading and settlement shall be handled for the bond after the end of the cut-off transfer date.

Article 68 The business days of CCDC are from Monday to Friday of each week, except legal holidays. The execution dates of each business specified in the Rules, in case of weekend or legal holidays, shall be deferred to the following first business day.

Article 69 The operation time of the book-entry system is 9:00 a.m.-17:00 p.m. of each business day, and the system will stop receiving settlement instructions from the customer terminal from 17:00 p.m.

Article 70 In case of changes in the business days of CCDC and the system operation time, CCDC will make an announcement on www.chinabond.com.cn and report to the PBC for record.

Chapter X Legal Responsibilities

Article 71 Apart from the Rules, the settlement participants shall also abide by laws, administrative regulations and department rules in relation to bond trading and settlement, and shall perform various obligations under the relevant agreements. In case a settlement participant violates the provisions above, it must assume the corresponding administrative and civil responsibilities. If the circumstances are serious and constitute a crime, the settlement participant shall be investigated by relevant judicial authority.

Article 72 Should a settlement participant have the following circumstances, CCDC will give an oral prompt, written caution and warning, suspension or termination of services and report to the PBC for record depending on the seriousness of the circumstances.

- i. A direct settlement participant who has opened a bond account has taken the emergency methods to deal with business several times but refuses to handle the formalities for connecting with the book-entry system.
- ii. The person who has not obtained the qualification certificate or has not been registered in the book-entry system operates relevant business;
- iii. The payer sends a payment confirmation instruction but fails to make payment under the PAD settlement method, or the payee fails to send a receipt confirmation instruction after receiving payment under the DAP settlement method.
- iv. Disputes between the two parties incurred by settlement failure owing to the violations;
- v. Failing to make an announcement in time if preparing and providing false materials and information and its own information provided is inauthentic or cannot be announced in time, causing economic losses to other settlement participants or adversely affecting the settlement order;
- vi. Failing to pay various service fees as required;

- vii. Refusing to sign the Customer Service Agreement with CCDC;
- viii. Deliberate illegal access to or attack or improper operation of the book-entry system, incurring damages to the system;
- ix. Other behaviors in violation of the Rules and relevant regulations.

Article 73 Once CCDC finds any settlement participant has the following behaviors in violation of the regulations of the PBC, it will refuse to handle or immediately stop handling relevant business, and report to the PBC and assist it to take relevant measures.

- i. Handling the collateral or outright repo settlement business without signing the Master Agreement on Collateral Repo or the Master Agreement on Outright Repo, or handling, at discretion, other business explicitly prohibited by the competent department;
- ii. A settlement participant handles settlement agency business without approval by the competent department or having not signed an agency agreement;
- iii. A type-A participant handles business against the entrustment of the principal;
- iv. A type-A participant colludes with the principal to operate business in violation of the regulations of the competent department.
- v. A type-A participant misappropriate or embezzle the principal's bonds or provide convenience for other parties' misappropriation or embezzlement of such bonds;
- vi. A type-A participant fails to manage its proprietary and agency business separately;
- vii. A type-A participant provides untrue information to its principal or divulges the principal's information, incurring financial losses to the principal;

viii. A type-A participant prevents directly or indirectly the principal from replacing it;

ix. Other behaviors in violation of relevant market management regulations of the PBC.

Article 74 Once finding the behaviors mentioned in Articles 72 and 73, CCDC shall have the right to take, within the scope of its business responsibilities, the measures it consider necessary and reasonable to prevent the consequences and losses on such behaviors from further expanding. Relevant settlement participants must actively cooperate with CCDC.

Article 75 As to the authorization manager or handler directly responsible for the behaviors mentioned in Articles 72 and 73, CCDC may suspend or cancel his/her settlement business qualifications depending on the seriousness of circumstances, and report to the person in charge of his/her institution in writing. The disqualified person shall not operate the settlement business until receiving the training of CCDC and passing its examination again; the disqualified person shall not apply for the qualifications for settlement business handler again within one year.

Article 76 With respect to the settlement participant which incurs losses to the counterparty due to the behaviors specified in Articles 72 and 73 or other irregular behaviors, when the relevant settlement participant as the counterparty investigates its liability for breach of agreement in accordance with the relevant regulations of the competent department and related agreements, CCDC may provide related supporting documents at the request of the settlement participant or the competent department, if the two settlement parties disagree on the confirmation of the liabilities for breach of agreement.

Article 77 Upon request, CCDC may provide the services of repayment or auction of the pledged bonds or those used in performance guarantee

according to relevant rules, based on the written agreement of the parties concerned or the related judicial documents.

Article 78 If CCDC causes economic losses to a settlement participant due to its own faults, it must assume the compensation liability for direct economic losses in accordance with relevant terms of the Customer Service Agreement.

Article 79 In case of system interruption incurred by force majeure or failure in power supply or communication system, resulting in business delay or failure or business data loss, CCDC shall be exempted from relevant liabilities according to relevant laws and regulations.

Chapter XI Supplementary Provisions

Article 80 The fees on the bond settlement business shall be charged in accordance with relevant terms of the Service Charging Measures of China Central Depository & Clearing Co., Ltd.

Article 81 Settlement of counter trading of bonds shall be handled according to the Settlement Rules for Over-the-counter Trading in Bonds.

Article 82 The trading and settlement of other non-equity financial instruments shall be handled with reference to the Rules.

Article 83 The Rules shall be interpreted by CCDC.

Article 84 The Rules shall come into force upon approval by the PBC.