Practices and procedures in the Chinese and international primary debt capital markets

September 2015

ICMA-NAFMII Working Group
6th UK-China Economic and Financial Dialogue

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I. Introduction

In the 2014 UK-China Economic and Financial Dialogue, Vice-Premier Ma Kai and Chancellor of the Exchequer George Osborne agreed that further cooperation between UK and Chinese financial market participants would benefit the development of capital markets, and welcomed the creation of a private sector working group chaired by the International Capital Market Association **(ICMA)** and the National Association of Financial Market Institutional Investors of China **(NAFMII)**.

The working group has brought together experts from financial institutions in China and London to share expertise on processes, practices, and the associated market infrastructure. Both ICMA and NAFMII acknowledge the important contributions of other financial institutions in the drafting and review of this report.

This first report by the working group is intended to give policymakers and market practitioners a useful outline of the way in which bonds are sold through the primary capital markets in both the cross-border international debt market and the onshore Chinese interbank bond market.

The analysis in this report covers bond issuances in two significant market segments:

- the international investment grade public markets (with their prevailing European-style bookbuilt syndications except where otherwise stated); and
- the Chinese onshore interbank market, which is China's over-the-counter market, and accounts for more than 90% of the total onshore market by new issuance and trading volume. This report does not attempt to cover the full range of bonds and other debt securities issued in markets across the globe. In particular, this report does not cover purely local bond markets, and does not cover international bonds issued to investors in the United States.

This report and its contents do not constitute an official or definitive statement on current regulation or market practices. This report is based on feedback from various market practitioners obtained with the assistance of several ICMA and NAFMII members.

The ICMA-NAFMII working group will continue to explore ways in which common market practices can help to make the debt markets more efficient, resilient, and well-governed. ICMA and NAFMII welcome further input to inform its continued work and improve practices internationally.

II. Executive Summary

The debt capital markets have long played a role in providing stable financing in the public and private sectors. At a time when banks are restricting lending, they enable companies to access funding and to deliver efficient returns to investors. Transferable debt securities are one of a range of means, alongside equity share capital, bank lending, and other methods, by which companies fund their business needs and their expansion. The bond markets are also important to governments to maintain sustainable and balanced growth, fund infrastructure projects, and respond to climate change.

International bond offerings must take into account various statutes, regulations, and court rulings from the European Union, United States and other jurisdictions that may relate to the issuer, underwriters, eventual investors, and any exchange/ listing venues. At the same time, over the last few decades a significant body of market practice has evolved to enable more efficient transactions. The Chinese interbank bond market, which has developed more quickly and recently, is governed by more detailed rules; however these rules continue to evolve, taking into account the local characteristics of the Chinese capital markets while influenced and informed by practices in other global markets.

This report is focused on processes and practices in the debt primary markets – i.e., the market in which bonds are initially offered to investors before they begin to trade freely among investors and dealers in the secondary market.

The analysis covers three important aspects of the way bonds are issued in the international and Chinese bond markets: due diligence, disclosure, and book building.

Due diligence

Due diligence is the process of identifying, processing and validating information about the issuer provided to investors to make informed investment decision.

In Chinese and international bond markets, due diligence is an essential part of the offering process. Due diligence, in practice, is a survey of the issuer to ensure the accuracy and completeness of disclosure to investors. Due diligence can cover all topics relevant to a decision to invest in the issuer's bonds, including the issuer's legal and financial status, business operations, management, and strategy.

In terms of market practice, there are no major differences in terms of the subject matter covered by due diligence in the international and Chinese capital markets. In both markets, due diligence is fundamentally a process designed to give investors all information needed to make an informed investment decision. In the international market, due diligence is also an important tool to avoid issuers' and lead managers' potential reputational damage and civil liability for any resulting losses to investors, while the Chinese system has until recently been based more on principles of investor protection and symmetric information. One notable difference in practice is that ongoing due diligence is explicitly required in China, while in the international market the due diligence effectively ends when investors receive the bonds in the primary market.

Disclosure

The international and onshore Chinese bond markets both operate under "disclosure-based" principles which place importance on transparency and information to enable investors to make informed investment decisions.

Disclosure in the prospectus mirrors to a large extent information gathered in the due diligence process, but will also usually contain a separate section on risk factors, as well as details about the particular terms and conditions of the bond and relevant offer terms.

International issuances generally require more detailed disclosure of the terms and conditions of the bond and the rights of investors than Chinese issuances, while Chinese issuances require more detailed disclosure of the use of proceeds. Some other specific aspects of disclosure, such as disclosure relating to controlling entities, related parties, work safety, and state secrets, are somewhat different between the international and Chinese markets due to broader principles of Chinese/ PRC national policy.

Also, the Chinese and international markets differ somewhat in terms of the specific representations and warranties required from each party with respect to the accuracy and completeness of the prospectus, as well as the potential respective levels of liability.

Book building

In a bond offering, "book building" is the process by which an underwriter seeks to gather demand from investors and conduct price discovery.

Generally, primary debt issuance in the international market features a shorter book building process than in China and fewer restrictions on the flow of information, subject to the general legal framework on insider information.

In the Chinese market, issuers are not involved in the core book building procedure, whereas in international markets, the issuer may be much more involved in the ongoing allocation and pricing discussions with the bookrunners.

Another major difference is that in the Chinese market, the book building process is more akin to a mechanical auction process, whereas in the international market the allocation and pricing depends more on the subtle conditions of the market and the professional experience and judgment of syndicate managers.

Recommendations

The key recommendations resulting from the comparative analysis of primary market practices are:

- Drawing on international law and market practice, consider the adoption of different levels of required disclosure in the Chinese market to take into account different types of investors (institutional and retail) and different types of issuers (seasoned and infrequent).
- Promote further development of due diligence procedures in the Chinese market, in particular drawing upon the specific areas of expertise of the various parties involved in the bond offering process.
- Further optimise and streamline the book building process in China, while also considering ways to enhance transparency in the international book building process based on current practices and lessons learned in the Chinese market.

III. Overview of international offshore and Chinese onshore markets

Types of bond offerings

By way of background, offerings of debt securities may be public or private, involving a single bank or syndicated among several banks, auctioned or underwritten (on a bookbuilt or retention basis) and done off a multi-issuance platform (such as an MTN programme) or on a standalone basis. Offerings may also be categorised according to size (including whether benchmark or not), issuer and/or investor geographical location (including domestic, foreign, international and also emerging market), bond structure (vanilla, asset-backed, covered) and term (commercial paper, note, bond) and issuer credit status (investment grade, high yield). Individual permutations of the above may involve differing laws, regulations, infrastructures and market practices.

Applicable law

In the international markets, a number of national and regional laws may be relevant to a single transaction depending, among other factors, on the domicile of the issuer and the distribution of the bonds. For example, issuers into Europe may have to comply with European Union disclosure requirements and regulations designed to prevent market abuse. Underwriters and other parties will have to pay attention to insider trading cases under the common law of England and local jurisdictions. Securities exchanges may have additional requirements for listed bonds. Finally, the contracts of international bond offerings (other than those issued into the United States) will generally be governed by English law or another established common law such as Hong Kong law or Singapore law.

International bond offerings will have to take into account United States securities laws, either to allow distribution into the United States or to ensure an exemption from U.S. registration requirements. In particular, Regulation S is a safe harbour from U.S. registration requirements for offers and sales of securities made outside the United States and/or to non-U.S. persons; Rule 144A is an exemption from U.S. registration requirements for offers and sales of securities to qualified institutional buyers.

The bond markets in China are younger than the international bond markets and have developed more quickly. The rules governing Chinese bond issuance are generally more detailed compared to the international markets, which are more driven by convention and established good practices.

In China, the onshore bond market is governed by a combination of civil law and socialist law. The most important law for issuers is the Company Law, promulgated by the State Council, which governs the establishment and operation of Chinese corporations generally. In the interbank bond market, NAFMII has authority to issue more detailed rules on issuance procedure, allocation, and disclosure.

Parties

Every bond issuance features a core set of parties involved, though sometimes the same entity may take on more than one role. The key parties involved in international and Chinese offerings are as follows:

- **Issuer:** The entity that raises capital by issuing bonds. An issuer in the international and Chinese markets may be a financial institution, a non-financial corporate, or a government entity.
- **Guarantor**: Though not present in every transaction, many bond offerings include a guarantor to enhance the credit of the bond. A guarantor may be an affiliate of the issuer, or may also be a third party, such as a development bank, with a mandate to provide credit support for certain types of bonds. Because the guarantor will usually have obligations similar to that of the issuer under a bond offering, many aspects of the transaction relevant to an issuer (such as description in an offering circular, warranties and provision of auditors' comfort letters) will apply equally to a guarantor.
- **Lead manager**: A bank mandated by the issuer to carry out the transaction. In both the international and Chinese markets (with the exception of retention or privately placed deals), the lead manager will also be a "bookrunner", that is, a bank which arranges the allocation of the bonds to investors. In the international market, several joint lead managers and joint bookrunners are appointed for any given large public transaction and comprise what is known as the syndicate. In China, usually one or two lead managers are appointed for each bond transaction with the exception of Short Commercial Papers which involves several

joint lead managers. Only one lead manager for each transaction is taking a leading role and acting as bookrunner.

- **Co-managers:** Banks in the syndicate who are not bookrunners are most frequently referred to as co-managers. In the international markets, the lead manager and co-managers either jointly and severally or severally but not jointly agree to subscribe to the bonds as initial purchasers, thus "underwriting" the bond issuance and ensuring that the issuer will raise the proceeds intended (with lead managers underwriting a larger share). In practice, the main value of the lead manager is to find investor bids; underwriters typically only take the economic risk of an investor pulling out of a transaction in the final couple of days or so before closing of the transaction. In China, co-managers are effectively hired by lead manager on behalf of the Issuer and promise to purchase any portion of a bond issuance not fully subscribed by investors.
- **Investors:** Most bond investors in the international market are professional investors such as investment funds, pension funds and insurance companies, though bonds in the international market may also be offered and sold to individual retail investors in some cases. Major investors in the China interbank market are the banks themselves, insurance companies, securities firms, and asset management companies.
- **Lawyers:** In the international bond market, it is most common to have at least two law firms involved in each transaction – one representing the lead manager and other banks, and the other representing the issuer. These are usually firms practicing English or New York law, consistent with the most common governing law of internationally distributed bonds and the related contracts. Lawyers for the lead manager prepare the legal documentation, draft the various contracts and provide a legal opinion as to the validity of the bonds and other matters. The issuer's disclosure document is usually prepared by the issuer's lawyers, but lead manager's counsel will also contribute certain sections and be closely involved in the drafting. Depending on where the issuer is incorporated, additional counsel may be appointed to advise on relevant matters of local law.

  In China, usually only one outside law firm is hired by the issuer as deal counsel to manage all legal aspects of the transaction on behalf of the issuer and lead manager. Only licensed Chinese law firms may practice in the Chinese interbank market.
- **Auditors:** In the international market, the main function of the issuers' auditors is to provide "comfort letters" to the managers. The comfort letter confirms the accuracy of the issuer's financial statements (with any material exceptions) and confirms no material adverse change in the financial condition of the issuer since its last audited accounts.

  In China, auditors are only responsible for preparing audit reports in connection with the bond offering and are not expected to provide comfort letters to the lead manager.
- **Clearing systems:** These are large institutions through which investors hold their interests in bonds, allowing trading by electronic book-entry rather than physical movement of securities.

  Typically Euroclear and Clearstream are the clearing systems in international markets; Shanghai Clearing House serves this function in China.

International transactions also feature either a trustee or fiscal agency structure. In China, the functions of the roles of the trustee or fiscal and paying agents are instead generally covered by the lead manager and relevant clearing house.

- **Trustee:** In the international bond context, a trustee is a professional corporation which represents the interests of bondholders during the life of the issue. The trustee is empowered to act on investors' behalf which allows them to make decisions in relation to enforcement actions or make simple technical changes to the documentation where it would not materially prejudice the investors. However, not all international bond offerings feature a trust structure. In bond issuances without a trustee, the investors will have a contractual relationship with the issuer directly and may seek to enforce their rights directly rather than through a trustee.
- **Fiscal agents / paying agents:** Banks which make payments on the bonds to investors on behalf of the issuer and, in the case of a fiscal agent, execute the administrative-only tasks that would fall to the trustee in a trust structure.

The bond issuance process

The following overview of the bond issuance process highlights some of the main features of transactions common to both the international and the Chinese interbank market.

Each bond issuance will start with the grant of a mandate by the issuer to the lead managers to arrange the transaction. The general terms of the mandate are agreed between the issuer and the lead managers at an early stage. Matters agreed early in the process include targeted key commercial terms such as currency, size, tenor/ maturity, price range, credit structure (for example, existence of a guarantee), and intended distribution to investors.

Preparation and negotiation of bond documentation

During the process of preparing to go to market, the lead managers work closely with the issuer and the external legal counsels appointed on the transaction in order to negotiate and finalise the underlying contractual documentation for the transaction:

1. **Prospectus / Offering Circular / Offering Memorandum:** The main disclosure document prepared by the issuer and its counsel for distribution to investors. It forms the issuer's main contribution to the investor's investment decision. It includes information about the issuer as well as the terms and conditions of the bonds. Properly diligenced, the prospectus is an important tool to prevent investors from claiming they were not given all material information about the bonds or that they were misled. In European markets, the document is primarily the responsibility of the issuer in relation to accuracy and completeness and from a liability perspective.
2. **Subscription Agreement:** The agreement under which the syndicate of banks (the "**managers**") agree to subscribe and pay for the bonds from the issuer and the issuer agrees to issue them. The agreement contains representations and warranties by the issuer (and guarantor, where applicable) to the managers as to the validity of the transaction, the accuracy of the prospectus and the general condition of the issuer and the guarantor. It will set out a number of conditions precedent to the managers' obligation to pay for the bonds, such as the provision of letters from auditors, external legal opinions and any documentation required from the issuer. It will contain an indemnity clause, indemnifying the managers against any cost or expense they incur in connection with the issue and will set out selling restrictions which seek to ensure that the managers conduct the offer in such a way as not to require any public registration or other filings.
3. **Trust deed (where a trustee structure is being used)** - the trust deed will constitute the bonds and regulate the relationship of the issuer and the trustee and, in turn, the trustee's relationship with the bondholders.
4. **Agency agreement** - a mechanical document which provides for the appointment of the banks who handle payments due to investors against presentation and surrender of their bonds or coupons and, in the case of a fiscal agent, provides for the administrative-only tasks that would fall to the trustee in a trust structure.
5. **Global Bond** - sets out the detailed terms and conditions of the investment.

Ahead of proceeding with marketing the particular transaction, the lead managers, the issuer, the external lawyers and other relevant agents will have agreed the form of the key legal documents. Once pricing has been completed, these documents are updated with the final details, circulated for approval and then executed by all parties.

Due diligence

Due diligence is, in essence, the process undertaken by underwriters, with the assistance of various professional parties, such as industry experts, lawyers and auditors, with the goal of having no material misstatement or omission in the offering document that investors use to make an informed decision to invest in the securities or not. In China, due diligence is provided by various parties to the transaction such as lawyers and auditors according to specific rules set out by self-regulatory guidelines.

In the international markets, the levels of due diligence applied in connection with an issuance are extremely variable and depend on a number of factors including but not limited to the issuer's track record in the securities markets and credit profile, the intended investor base, and market conventions and practices. In the Chinese market, the

rules governing due diligence are more precise and consistent across the range of issuers and transactions.

Announcement and roadshow
In the international market, an announcement of the transaction typically follows completion of any initial due diligence and drafting of all material documentation. A roadshow, where individual or group meetings or calls take place between investors and the issuer, will usually occur at this point for debut and infrequent issuers. It is worth noting that though information in relation to the issuer's business and the potential transaction is usually presented at these meetings, no hard copy of any presentation is left with investors to emphasise that it is the formal offering documents (i.e., the prospectus) which investors can rely on for their decision on whether or not to invest in the bonds.

Launch and disclosure of terms
In the international market, the common practice is for the lead managers to release skeleton details of the proposed issuance to the market via Bloomberg or a similar screen communication platform. The issuer may then, either directly or through their lead managers, invite other financial institutions to participate in the issuance as a co-manager. Relations between the managers may be governed by a standard form agreement among managers.

Book building and pricing
In the international market, the active bookrunners manage the process of "book building" – generating, capturing and recording investor demand for the bonds (though other managers can also submit investor orders). In consultation with the issuer, the bookrunners will determine the final pricing terms for the issuance and the allocation of bonds to investors. In the international context, the book building process is not explicitly governed by many rules and regulations, and the banks in the syndicate rely more on professional judgment and experience as well as commonly accepted practices that have evolved in the market to balance the interests of the issuer, the investors, and the managers. In China, the book building process is a more tightly controlled auction-style process, governed by NAFMII rules, with an aim to ensure transparency and fairness to investors.

Closing - issue of the bonds
In preparation for closing, the lead managers will liaise with the various parties to the transaction in order to finalise the arrangements for the distribution of bonds and flow of funds. Once the lead managers are satisfied that all conditions precedent to the issuance have been met they will then instruct the common depositary, against delivery of the executed and authenticated global bond, to transfer the net subscription monies to a designated account of the issuer and to request that the clearing systems credit the bonds to the allocated accounts.

It is worth noting that in the international market, the syndicate may appoint stabilising managers (from among the lead managers) who may seek to maintain relative stability in the price of the newly issued bond after it becomes free to trade. There is currently no stabilisation in the Chinese interbank market.

IV. Comparison of international offshore and Chinese onshore primary market practices

A. Summary

The comparison and analysis in this part of the report covers three important aspects of the primary markets common to the international and Chinese markets: due diligence, disclosure, and book building.

While most of the important principles and procedures are similar between the two markets, it is worthwhile to briefly highlight some of the most important differences.

Due diligence

- In the international markets, due diligence is fundamentally a process undertaken by underwriters, with the assistance of various professional parties, such as industry experts, lawyers and auditors, with the goal of having no material misstatement or omission in the offering document that investors use to make an informed decision to invest in the securities or not. Depending on the statutory regime of the jurisdiction, due diligence may be a defence available to underwriters for underwriter liability should it be adjudicated that there was a material misstatement or omission in the offering document on which the investor relied, while the Chinese system have been based on principles of investor protection and symmetric information. However, the motivations for due diligence in the Chinese markets have recently developed to become more consistent with those of the international markets.
- Due diligence in the international markets has evolved over decades based mainly on market practice; due diligence in China is governed by more detailed and comprehensive regulatory guidelines.
- Ongoing due diligence required in China, while due diligence requirement ends at closing in the international markets.

Disclosure

- Various managers of the issuer make different representations and warranties about the accuracy and completeness of the prospectus, and have different potential levels of liability.
- Chinese issuances require more detailed disclosure of the use of proceeds.
- International issuances generally require more detailed disclosure of the terms and conditions of the bond and the rights of investors.
- Some other specific aspects of disclosure, such as disclosure relating to controlling entities, related parties, work safety, and state secrets, are somewhat different between international and Chinese markets due to broader principles of national policy.

Book building

- In the Chinese market, issuers are not involved in the core book building procedure, whereas in international markets, the issuer may be much more involved in the ongoing allocation and pricing discussions with the bookrunners.
- In the Chinese market, the book building process is more akin to a transparent and mechanical auction process, whereas in the international market the allocation and pricing depends more on the subtle conditions of the market and the professional experience and judgment of syndicate managers.

B. Due diligence

What is due diligence?

Due diligence is the process of identifying, processing and validating information about the issuer required for investors to make a reasonable investment decision.

In Chinese and international bond markets, due diligence is an essential part of the offering process. Due diligence, in practice, is a thorough survey of the issuer to ensure the accuracy and completeness of disclosure to investors. Topics covered by due diligence are all those relevant to a decision to invest in the issuer's bonds – including the legal and financial status of the issuer, business operations, management, and strategy.

Effective due diligence is the foundation for the preparation of bond issuance documents and for accurate information disclosure at the issuance stage. In reality, issuers are required to disclose all information required for investors to evaluate and judge the various risks associated with the bonds.

In terms of market practice, there are no major differences in the scope of due diligence between the international capital market and China's interbank bond market.

However, some differences exist in the practical operation of due diligence, based on differences in market development, legal environment, and financial supervision.

Applicable law and guidelines

In the international markets, there is no statutory law (of England, the EU, the United States, or otherwise) to mandate the scope or methods of the due diligence which should be undertaken. In the US, there is considerable case law as well as guidance from the Securities and Exchange Commission on the subject. Due diligence is in part based upon rules regarding liability for negligent misstatements.

As a result, due diligence in the international capital markets is principally a matter of practice which will vary considerably based on the different type of offering, the nature and the geographic location of the issuer as well as the range and type of investors. Each underwriter will also have its own internal practices and requirements with respect to due diligence.

In this respect, the ICMA Primary Market Handbook sets out Recommendation R3.3 and item 3.4 on due diligence:

> "R3.3 The appropriate level of due diligence to be performed in the context of each issue should be considered carefully.
>
> 4.3 It is impossible to prescribe whether or what due diligence procedures would be appropriate in the circumstances of each issue, and procedures will vary greatly from issue to issue (depending, for example, on the type of securities being issued, the rights attached to those securities and the nature of the issuer and its business)."

The Chinese market has more concrete and comprehensive specific standards for due diligence. In 2008, NAFMII formulated the Guidelines of Due Diligence on Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Market (**Due Diligence Guidelines**) and the Rules for Intermediate Services Relating to Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Market. The Due Diligence Guidelines are effectively mandatory for participants in the onshore interbank market. NAFMII issued these guidelines in accordance with the Measures for the Administration of Debt Financing Instruments of Non-financial Enterprises in the Interbank Market promulgated by the People's Bank of China

NAFMII's Due Diligence Guidelines govern the due diligence of lead underwriters in the interbank bond market. They cover the definition of due diligence, working requirements, due diligence methods, due diligence report, ongoing and transaction-related due diligence, bring-down due diligence and other aspects.

Why due diligence? Perspectives of the international and Chinese markets

Due diligence is mainly designed to ensure: (1) the information on all material matters in the prospectus is accurate; (2) the prospectus does not omit any important fact necessary for potential investors to make a reasonably informed decision about the issuer's credit.

The main functions of due diligence in the international and Chinese market are generally the same. However, there are some more subtle differences in emphasis and priority. In the international capital market, due diligence is fundamentally undertaken to protect investors from receiving and relying on false or misleading information and avoid issuers' and lead managers' potential reputational damage and civil liability for any resulting losses to investors. In the international context, the underwriter wants to ensure not only that he information on all the material matters in the prospectus is accurate (this process is usually called "review inspection"), but also that the prospectus does not omit any important fact, that is, to ensure correct disclosure of all important information.

China's interbank bond market emphasises the role of due diligence in mitigating asymmetric information and strengthening risk disclosure to investors. The Chinese practices also stress the role of due diligence in promoting more accurate and market-based pricing of debt financing instruments by transmitting authentic and reliable information. Also, due diligence by the lead underwriter will guide the general direction for due diligence by other intermediaries and provide an overall reference for the collective investigation into the issuer.

The international and Chinese approaches are two sides of the same coin. In the international context, the liability standard should result in full material information being provided to investors; conversely, in the Chinese markets a failure to provide adequate and accurate information may result in liability for those responsible for due diligence.

Roles of the parties in due diligence

As far as the contents of due diligence are concerned, there are no major differences between the international market and the Chinese market in the areas of information about the issuer to be investigated. However, when it comes to the entities and specific roles of due diligence, there are some differences.

In the international market, the underwriter and its lawyer will manage the entire due diligence process, but with an emphasis on business due diligence (and, to a lesser extent, financial due diligence). Actual procedures vary from one issuer to another, but almost all the public bond issues will include the comfort letter issued by the issuer's auditor as part of the financial due diligence and one or more legal opinions from the legal advisor as part of the legal due diligence.

In China, the due diligence by the lead underwriter constitutes the foundation of the due diligence on issuer. The lawyer and the auditor are also key members of the due diligence team. The lead underwriter will normally coordinate the independent professional opinions of the lawyer and the auditor with respect to due diligence to arrive at a collective view on the scope and validity of due diligence.

China: Due diligence by lead underwriter

Due diligence by the lead underwriter constitutes the foundation of due diligence for the debt financing instrument. Compared to due diligence by other intermediaries, due diligence by the lead underwriter covers the broadest scope.

It is intended to perform prudential review of the authenticity, accuracy and integrity of the registration document for the debt financing instrument, ensure the information disclosure quality of the debt financing instrument issuance, and provide the foundation for the lead underwriter's expression of the recommendation opinion on the debt financing instrument issued by the issuer.

The core significance of due diligence by the lead underwriter is to mitigate the asymmetric information of the debt financing instrument and increase market efficiency.

Specifically, the functions include mitigating the asymmetric information between investors and the issuer to promote reasonable pricing of the debt financing instrument and reduce the market operation cost; mitigating the

asymmetric information between the NAFMII and the issuer to enhance the efficiency of self-regulatory management and reduce the self-regulatory management cost; exploring the investment highlight of the issuer, promoting the issuer to improve the capacity for information disclosure and compliant operation and assisting the issuer to reduce the financing cost; reducing the supervisory risk, underwriting risk and reputational risk faced by the lead underwriter; and guiding the general direction for due diligence by other intermediaries and providing an overall reference for the latter.

Due diligence by auditor
In the international capital market, the auditor of the issuer will review and validate in detail the financial statements of the issuer and all the financial information disclosed by the issuer in the prospectus, and send a letter of comfort. The letter of comfort records the procedure and result of the auditor. Though different, the procedures usually include reviewing the accounts after the financial report for the previous fiscal year, and discussing relevant negative conclusions and negative changes incurred but not covered in the financial report.

In the Chinese market, the auditor will not be expected to issue a letter of comfort to the underwriter. However, in other aspects the role of the auditor is similar to that in the international market. The auditor will complete a validation of financial information disclosure, and the issuer will provide audited financial reports. An auditor may also issue special opinions on material or doubtful financial treatment issues, if any, and these opinions will be quoted in the prospectus.

Due diligence by lawyer
In China's interbank bond market, the lead underwriter helps the issuer prepare the prospectus of the debt financing instrument, and the responsibility of the issuer's lawyer is mainly to issue a letter of legal opinion on the issuance of the debt financing instrument, with the fundamental function of establishing a legitimate contractual credit relation between the issuer and investors of the debt financing instrument. Therefore, due diligence of the issuer's lawyer mainly focuses on the matters involved in the letter of legal opinion.

In the international market, the issuer must show the capacity to issue securities (for example, its registration document does not forbid securities issuance). The underwriter and the lawyer shall also ensure the debt issuance document is duly authorised by the issuer, and is legitimate, valid, binding and enforceable. Information on the issuer is obtained from the due diligence questionnaire completed by the issuer. The questionnaire can require the issuer to provide duplicates of relevant documents or respond at the due diligence discussion. The interview with the management of the issuer can be an important part of the legal (as well as business) due diligence.

In the international markets, the lawyers for the bond issuer will express legal opinions on the legality of the bonds. Distinctly from any issuer counsel opinion, lead manager counsel may also provide a legal opinion. Lawyers for both the issuer and the underwriter will also assist the issuer to prepare or review bond issuance documents, especially the prospectus. The lawyers of both the issuer and lead managers normally negotiate and determine the scope of legal due diligence. The prospectus is mainly drafted by the lawyers, but the underwriters ultimately manage the due diligence process.

In the Chinese market, the lead underwriter helps the issuer prepare the prospectus for the bond, and the responsibility of the issuer's lawyer is mainly to issue a letter of legal opinion on the issuance of the bond. The due diligence of the issuer's lawyer mainly focuses on the matters involved in the letter of legal opinion.

Other procedures may include that the lawyer reviews major business contracts and other important corporate documents of the issuer, survey key facilities of the issuer on the site and attend meetings with important third parties, such as supervisory authorities, suppliers, customers or banks.

Process of due diligence
The procedure and extent of due diligence depend on the issuer's business nature, type of the issued bonds, bond investor type and issuance place. A high-level issuer often issuing bonds may receive very limited due diligence, while an issuer making an initial issuance in the emerging market will likely receive a higher extent of due diligence.

As a general practice in the international capital market, the procedure and extent of the due diligence depend on the issuer's business nature, type of the bonds issued, type of bond investors and issuance place. The lead underwriter carefully considers the extent of due diligence required based on the concrete conditions of each issuance. An experienced issuer often issuing bonds may receive very limited due diligence, while an issuer making an initial issuance in the emerging market will likely receive a higher extent of due diligence.

Under the current NAFMII rules, in China the extent and procedure of due diligence are the same for high-level issuers with frequent bond issues and issuers making initial bond offering. The due diligence required in China is directly related to the required information disclosure in the prospectus, which generally include:

- business independence
- internal management and operational compliance
- principal operation
- financial standing
- industry and industry prospect
- other material matters
- purpose of raised proceeds; and
- credit standing

In China, due diligence is a collective responsibility of the intermediaries. Each intermediary involved in the bond issuance must adhere to relevant professional responsibility standards and ethics. These include the principles of independence, objectivity, prudence, and confidentiality.

In the Chinese market, methods of due diligence for the debt financing instrument include review, interview, attending meeting as a non-voting attendee, field survey, information analysis, validation and discussion. It must be particularly noted that not all methods apply to all debt financing instrument issuers, and the lead underwriter shall select an appropriate method to perform due diligence according to the issuer's characteristics in industry, organisation and business.

- *Review:* Review relevant documents of the issuer relating to policies and business flows, and understand major policies, business flows and relevant internal control measures constituting the foundation for daily operation of the issuer in a comprehensive manner. The review shall cover organisation, personnel, finance, accounting, asset management, corporate governance and other aspects of the issuer;
- *Interview:* Hold a talk with senior executives of the issuers and leaders of its finance, sales, internal control and other departments to know the latest information of the issuer and verify the existing information;
- *Meetings:* Attend (without voting power) meetings of the issuer relating to the debt financing instrument, such as the shareholder's meeting, meetings of the board of directors, working meetings of the senior management and department coordination meetings;
- *Field survey:* Go to major production site, construction site or other business bases of the issuer to perform a field survey;
- *Information analysis:* Analyse collected information and data to draw a conclusion;
- *Validation:* Communicate and validate with relevant institutions to confirm the authenticity of the conclusions drawn after review and field survey.

In China, due diligence by the lead underwriter for the debt financing instrument is usually divided into three stages: (1) preliminary due diligence, (2) comprehensive due diligence and (3) ongoing due diligence.

Preliminary due diligence means the basic survey performed by the lead underwriter to judge whether the target issuer can issue a debt financing instrument during business development;

Comprehensive due diligence is the process that the lead underwriter knows the issuer in an all-round manner, gets fully familiar with its operating status, risks and problems, and has adequate reasons to assure the issuer can issue a debt financing instrument and assure its registration document and prospectus are authentic, accurate and integral

Ongoing due diligence means that during the duration of the debt financing instrument, the lead underwriter must continuously watch the issuer's profitability, industry trend and remediation of problems found during the due diligence, and adjust the debt issuance plan based on the remediation result.

Under NAFMII's guidelines and market practices, due diligence includes the following steps:

1. Establish a working team: Due diligence team will substantially consist of people from the headquarters of the lead underwriter, and people of the branches will participate and assist;
2. Make the working plan and hold the project initiation meeting: The working plan mainly includes the working objective, working scope, working method, working roles, working time, working flow and participants;
3. Submit due diligence list: It is an important step to perform due diligence, and the issuer must prepare relevant documents in line with the list, and submit the documents to the due diligence team within the specified time;
4. Interview: Based on preliminary analysis of the due diligence documents obtained, the lead underwriter will prepare an interview outline by aggregating questions about the documents and matters that will help understand the issuer's information in depth, and submit the outline to the issuer in advance;
5. Draw due diligence conclusions: The lead underwriter shall complete the working paper based on the due diligence documents obtained and the record of field interviews;
6. Track due diligence: It includes tracking due diligence both periodically and when material events occur.

In the international context, the lead manager's due diligence process is similar, with the major difference that due diligence is not required after the bond offering has closed (which may be contrasted with the Chinese requirement for ongoing due diligence during the life of the bond).

- When an issuer makes an inaugural offering with a new prospectus, the underwriter is likely to put together a due diligence questionnaire, and participate in a series of talks with senior executives of the issuer. The questionnaire will be designed to obtain as much detailed information as possible on all aspects of the issuer's business. However, if the issuer is a frequent issuer with substantial issuance experience, the underwriter will usually only need to update an earlier prospectus (to the extent it does not reflect any material recent developments).
- Before the issuance, the underwriter and the senior executives of the issuer may hold a meeting on the telephone and hold other due diligence meetings.
- As part of the review and validation procedure, underwriters will update relevant contents of the prospectus and discuss the contents with the relevant level of management of the issuer. Underwriters will also review documents provided by the issuer as required by the lawyer of the underwriter.
- The underwriter may also assign its internal credit analyst to perform a credit analysis of the issuer, as part of the due diligence process rather than the separate analysis by a credit rating agency.
- As part of the underwriting agreement, the underwriter will expect to have proper representations and warranties.

Content of due diligence

In both international and Chinese markets, due diligence can be divided into general areas of financial, business, and legal due diligence.

Financial due diligence

Financial due diligence mainly aims to ensure all the financial information contained in the prospectus is accurate and complete. The auditor of the issuer will review and validate in detail the financial statements of the issuer and all the financial information disclosed by the issuer in the prospectus, and send a letter of comfort.

In the international market, but not the Chinese market, a letter of comfort records the review procedure and audit result of the auditor. In both markets, accountants review financial reports and discuss relevant negative conclusions and negative changes incurred but not covered in the financial report with the management since the last updating or filing of the prospectus.

Business due diligence

Business due diligence involves the underwriter's assessment of the issuer's operations and prospects. The analysis is generally both forward and backward looking. With the forward-looking survey, the underwriter must decide the issuer has adequate reputation. Usually, the underwriter will investigate the business plan, forecasts and budget of the issuer, and ensure they are based on adequate and proper assumptions. The underwriter will hold an appropriate discussion with the management of the issuer. If the issuer has a very high rating result, the underwriter will usually not perform such due diligence, unless the underwriter has justifiable reasons to doubt the accuracy of the issuer's rating. If the issuer has a low rating, the underwriter will often perform a credit analysis of the issuer in line with its internal procedures.

Legal due diligence

Legal due diligence is generally limited to checking that the issuer is duly incorporated without any pending insolvency proceedings, has validly authorised the bond issue and that the bonds will generally be legal, valid and binding obligations of the issuer.

C. Disclosure

The international and onshore Chinese bond markets operate under "disclosure-based" principles which place importance on transparency and information for the investor in order to make an informed investment decision.

In parallel with the due diligence process, the disclosure in the prospectus will contain information about the business of the issuer, the financial status of the issuer, legal and regulatory aspects relevant to the issuer's organisation, operations and particular bond offering. Prospectus disclosure will also usually contain a separate section of risk factors (covering all relevant areas), as well as details about the particular terms and conditions of the bond.

The general principle behind disclosure in international bond offerings is that the issuer must disclose all information that an investor needs to make an informed investment decision. This is reflected in the European legislation for prospectuses (the EU Prospectus Directive regime), which also contains specific information requirements for different types of issuer and different types of security. The disclosure rules in the Chinese interbank market, as outlined in detail in NAFMII's Rules for Information Disclosure on Debt Financing Instruments of Non-financial Enterprises.

The level of disclosure in the international market will depend on the planned distribution to investors. The disclosure may vary among debt intended to be sold publicly or privately, or to retail as opposed to only institutional investors. Under the EU Prospectus Directive, the disclosure regime for securities intended to be sold to retail investors is more burdensome, and includes a requirement to include a summary of the offering in the prospectus.

Under the EU Prospectus Directive, the issuer accepts responsibility for the prospectus and confirms that, to the best of its knowledge, the prospectus is in accordance with the facts and that the prospectus makes no omission likely to affect its import.

If the EU Prospectus Directive applies, the prospectus must be reviewed and approved by a national regulator in Europe under EU rules.

In China's interbank bond market, all newly issued corporate bonds must be registered with NAFMII. Similar to the review and approval by a national regulator under the EU Prospectus Directive, NAFMII undertakes only an examination of the general contents of the prospectus and makes no judgment or comment on the value or risk of the investment. In both the international and Chinese markets, the investor must carefully read the prospectus, independently analyse the disclosure, and evaluate the investment risk before buying a bond.

However, in China the issuer will effectively represent the accuracy of disclosure in the prospectus. (Similarly, in the international markets, the issuer represents the accuracy of disclosure to the lead managers.) The board of directors (or equivalent entity) approves the prospectus, and all directors (or equivalent persons) warrant that the prospectus contains no false information, misleading statement or material omission. They bear joint and several strict individual legal liability for the authenticity, accuracy, integrity and timeliness of the prospectus. In addition, the leader of the enterprise and the leader of the accounting department warrant the authenticity, accuracy, integrity and timeliness of the financial information contained in the prospectus. In a Chinese registration document, the issuer explicitly undertakes to perform its obligations in line with laws, regulations and the prospectus. This representation is not required in Europe.

Terms and conditions of the bond (and issuance)

The EU Prospectus Directive requires disclosure of certain information concerning the securities, including provisions relating to the priority of the debt in the issuer's capital structure.

The EU rules set out certain relevant terms that must be disclosed, but market practice is to set out the terms and conditions of the bonds in full, verbatim.

In China, the registration document must contain the following basic terms of the issuance:

- Full name of debt financing instrument
- Full name of issuer
- Outstanding debt by issuer
- Registration notice number
- Term, face value, and issuing price or interest rate pricing method
- Target investors
- Underwriting and issuance
- Issuance date and value date
- Redemption price, method, and date
- Credit rating agency, credit rating result
- Redemption or sellback
- Credit enhancement

The requirements in the EU are similar to those for China but do not require disclosure of the issuer's outstanding debt or the "registration notice number". The EU Prospectus Directive does, however require the following additional disclosure (among other things):

- Form of the issuance (bearer or registered)
- Currency
- Ranking of the securities
- Terms of redemption and repayment (including provisions for early redemption or amortisation)
- ISIN
- Governing law
- Provisions relating to interest payable
- Yield
- Representation of debt security holders
- The resolutions, authorisations and approvals relating to the securities
- Any restrictions on free transferability
- Arrangements for listing (known as admission to trading)
- Any credit ratings
- In certain circumstances
    - o withholding tax information
    - o terms and conditions of the offer
    - o pricing
    - o names and addresses of entities involved in placing and underwriting

Use of proceeds

Where the securities have a denomination of less than €100,000, the EU Prospectus Directive requires the issuer to disclose the use of the funds raised, as well as the amount and sources of other funds needed if the debt offering cannot meet the issuer's funding need. In practice, use of proceeds may be disclosed as being for general corporate purposes. The EU Prospectus Directive also requires in certain circumstances disclosure of reasons for the offer, if other than profit generation and/or risk hedging.

Chinese requirements for disclosure of use of proceeds are generally more burdensome than international regulation. A Chinese issuer must disclose the name of the entity using the funds raised, the total amount and calculations of any funding gap. If the funds raised are used for a project, disclosure is required on the project's investment amount, availability of proprietary capital and capital, construction plan, status of approval documents related to land and environmental protection.

Chinese disclosure rules also, unlike the European rules, require a warranty from the issuer that use the funds for production and operation activities of the issuer will comply with the laws, regulations and policies of the state, and that the issuer will disclose relevant information in a timely manner before changing the use of the funds raised during the duration of the bond.

Risk disclosure

The EU Prospectus Directive requires discussion of risks affecting the issuer's ability to repay and the market risks associated with the securities.

In China, the following risks, along with other specific risks related to the current bond issue, are recommended to be explicitly disclosed:

- *Investment risks.* Interest rate risk, liquidity risk and solvency risk.
- *Financial risk.* Risks arising out of financial factors such as asset and liability structure of the issuer; liquidity of assets; debt profile; capital expenditures; returns from investments; restricted assets; non-recurring profits and losses; potential changes in the fair value of derivatives; contingent liabilities; and significant change in material accounting treatment.
- *Operating risk.* Risk arising out of changes in the markets or operating environment relating to the product or service of the issuer; fluctuation of product supply and demand; changes to raw material prices; competition in the industry; influence of the business cycle or product lifecycle; market saturation or market isolation; dependence on single market; market share; and changes in exchange rate and trade environment, as applicable to the issuer.
- *Management risk.* Risk arising out of the instability of management, management system and management policy of the issuer as a result of organisational structure, competition and material related transactions with controlling shareholder and other important related parties, management compensation, subsidiary structure, complex internal equity relationships, possible asset restructuring or change in important shareholders after issuance, and risks related to workplace safety.
- *Policy risk.* Concrete policy-related risks incurred by the issuer as a result of possible changes in laws, regulations and policies of the state. The issuer must disclose potential impact from changes in the fiscal policy, financial policy, land use policy, industrial policy, industry regulation policy, environmental protection policy, tax policy, the business licensing system, foreign exchange system, international antidumping policy, anti-subsidy or special safeguard measures, and policy differences between countries.

Historical evolution

Chinese disclosure rules generally require issuers to disclose more historical information about the evolution of the company.

The EU Prospectus Directive generally requires issuers to disclose some limited information about the issuer's history together with current information relating to the issuer and any recent material events.

A Chinese issuer's disclosure of the historical evolution of the enterprise would include the succession of major entities, the establishment, historical evolution and reorganisation of the enterprise as well as historical changes in the equity structure; important events in the progress of the enterprise over different historical periods, including shareholding reform, material capital increase or decrease, merger, separation, bankruptcy restructuring and name change.

Enterprise Overview

In China, issuers must disclose their governance and organisational structure. Chinese issuers must disclose basic information about their directors, supervisors and senior management, and confirm compliance with China's Company Law and other relevant laws and regulations and the articles of association. In the EU, required disclosure is similar to that in China but does not require a confirmation of compliance with a "company law".

China requires disclosure on specific business segments, including historical operating revenues, operating costs, profits and margin. For any business segment contributing over 10% of the revenue or profit, the issuer must disclose the segment's profit model, industrial chain, production and sales regions, key technical processes and competitive position over the last three years. Disclosure must also include indicators of the company's position and operating advantages in the industry.

Chinese issuers must also disclose details of construction in progress, including the relevant costs, plan, availability of funds and capital, and compliance with applicable law. The EU has no explicit equivalent requirements on ongoing or planned construction. The EU only requires more general disclosure of the main operations, products, and services of the issuer, as well as the basis for any statements made in the prospectus regarding the issuer's competitive position.

Strategy and profit forecasts

Chinese rules require disclosure of an issuer's development strategy and plans for the next three to five years. Under the EU Prospectus Directive, the issuer is not explicitly required to disclose its strategy.

The EU Prospectus Directive mandates, broadly speaking, that any disclosure of profit forecasts (1) includes relevant assumptions upon which the issuer based the forecast, classified into factors that can be controlled or not controlled by the company's management; (2) is made in compliance with the applicable accounting standards of the issuer; and (3) is prepared on a basis that is comparable to financial information for previous years included in the prospectus.

Controlling shareholders and actual controlling interests

The EU Prospectus Directive requires disclosure of controlling ownership interests of the issuer. However, compared to the Chinese rules, it only requires the disclosure of information to the knowledge of the issuer.

This may be due to different legal and ownership structures common in the Chinese as opposed to European markets. Chinese issuers often have partial state ownership, while multinational corporations may have diverse forms of organisation spread across international entities with different structures.

Chinese issuers must disclose corporate and business relationships with the controlling shareholder in terms of assets, personnel, organisation, finance, and business operations. China requires disclosure of controlling shareholders and the actual controlling entity or person, including relevant shareholding ratios. Under the EU Prospectus Directive, the issuer is generally required to disclose, to the extent known to the issuer, whether the issuer is directly or indirectly owned or controlled and by whom, and describe the nature of such control, and describe the measures in place to ensure that such control is not abused.

In China, if the controlling shareholder is a natural person, relevant information must be disclosed including the person's name, brief background and pledge of shares in the issuer, as well as major investments of the natural person in other enterprises and the person's relationships with other majority shareholders. If the controlling shareholder is a legal entity but not a natural person, disclosure must be made of the entity's name, establishment date, registered principal, principal operations, asset size, revenue and profit, as well as changes and pledges of the issuer's shares held by the legal person.

With respect to material equity investments, Chinese issuers must disclose shareholding ratios in consolidated subsidiaries. They must also disclose reasons for consolidating subsidiaries in which they hold less than 50% of shares, or not consolidating subsidiaries in which they hold more than 50% of shares. Disclosure must also be made on subsidiaries having material influence on the enterprise, including principal operations and major financial data (including assets, liabilities, owners' equity, revenue and net profit) over the past year.

The EU Prospectus Directive does not require the issuer to fully disclose operating information related to all subsidiaries. The Chinese rules require the issuer to disclose the financial information of its subsidiaries over the past three years, while the EU Prospectus Directive requires the issuer to disclose at least its consolidated financial information in respect of the past two years, with some exceptions.

Material contracts and related transactions

Broadly, the EU Prospectus Directive requires the issuer to disclose a brief summary of all material contracts that are not entered into in the ordinary course of the issuer's business, which could result in any group member being under an obligation or entitlement that is material to the issuer's ability to meet its obligation to security holders in respect of the securities being issued.

China requires the following disclosure with respect to related transactions:

- Contents of the related transaction policy, including without limitation to pricing principle, decision-making procedure and decision-making mechanism.
- Contents and changes of accounts payable, accounts receivable, other payables, other receivables, cash flow and other subjects relating to operating activities.
- Related transactions as to overview, reason, pricing basis, settlement mode, impact and fund occupation over the past year.

Matters of national importance

The Chinese rules require disclosure of information related to work safety.

The EU does not set explicit requirements for disclosure of work safety issues in the prospectus, but national competent authorities can ask for adapted information for issuers engaged in mining, and other specific, listed industries.

China requires the following disclosure from the issuer with respect to work safety:

- Prior history of material safety accidents, including basic information of the accident, determination of relevant state authority for accident reason and nature, relevant remediation requirement for the issuer and subsequent inspection and acceptance.
- Internal control systems and relevant emergency response plans relating to work safety.
- Concrete measures relating to work safety management and status of implementation.
- Work safety inspection records over the past three years.

The Chinese prospectus also requires a provision related to national secrets. The issuer represents that "this Company warrants that all the information disclosed by this Company for the issuance of the debt financing instrument does not involve national secrets, and this Company shall exclusively undertake any consequence arising out of the public information disclosure." This is a China-specific provision not required in the EU.

Financials

China requires disclosure of audited financial reports over the past three years, as well as disclosure of any material changes in accounting policy. With some exceptions, the EU Prospectus Directive requires disclosure of audited financial statements for the past two years. Under the EU Prospectus Directive, if the issuer is from a member state of the European Community (EEA), the issuer should disclose financial statements in line with EU IFRS (or, in certain circumstances, the accounting standards of its home state).

An issuer from another country must either disclose financial information in accordance with international accounting standards or equivalent national accounting standards. If the issuer is offering securities in denominations of at least €100,000, it has the option to disclose financial information prepared to an alternative standard but it must disclose (1) that the financials are not disclosed in line with the international accounting standards, and may differ from general standards; and (2) a description of discrepancies from the international accounting standards.

Under Chinese rules, the issuer must disclose the balance sheet, income statement and cash flow statement over the past three years and the most recent period, and specify data sources. If the company prepares the consolidated financial statements, the company must simultaneously disclose the consolidated financial statements and the financial statements of the parent.

Broadly, under the EU Prospectus Directive, the issuer should disclose:

- If the issuer prepares both own and consolidated financial statements, at least the consolidated financial statements. The last year of audited financial information may not be older than 18 months from the date of the registration document.
- A statement that the historical financial information has been audited. If the audit reports on the financial information have been refused by the audit firm or if they contain qualifications or disclaimers, such refusal or such qualifications or disclaimers must be reproduced in full and the reasons given.
- An indication of other information in the registration document which has been audited by the auditors.
- Where financial data in the registration document is not extracted from the issuer's audited financial statements, the source of the data and a statement that the data is un-audited.

Asset-liability structure
In line with standard accounting procedures, issuers in the Chinese market should analyse the change and reason for the change relating to any asset contributing over 10% of total assets, or any liability contributing over 10% of total liabilities, or the any material accounting item being affected by a change of more than 30% over the past year and the most recent period.

Asset restructuring
China requires the following disclosure with respect to asset restructuring:

- Potential risk arising out of the material asset restructuring.
- Any asset restructuring plan, current stage, completed legal procedure, compliance of restructuring process and influence on the qualification as the debt financing instrument issuer and validity of its resolutions.
- Comparable financial data over the past three years and the most recent period.
- An analysis of the influence of the restructuring on its production, operation and solvency.

Financial indicators: In China, issuers must disclose data on solvency, profitability, operating efficiency and other relevant financial indicators and reasons for their changes over a three-year historical period. Under the EU Prospectus Directive, the issuer is generally required to disclose a description of any significant change in the financial or trading position of the group which has occurred since the end of the last financial period for which either audited financial information or interim financial information have been published, or an appropriate negative statement.

Interest-bearing liabilities. Chinese rules specify an issuer must disclose the amounts, repayment and other key terms, and credit support structures of interest-bearing liabilities.

Contingent liabilities. Chinese rules require disclosure of external guarantees, pending litigation and arbitration, material commitments and other contingent liabilities in the most recent period. Under the EU Prospectus Directive, issuers are required to disclose information on any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the issuer and/or group's financial position or profitability, or provide an appropriate negative statement.

Restricted assets. Chinese issuers must disclose the mortgage, pledge, lien and other purpose restrictions over assets in the most recent period as well as other priority of debt repayment that can challenge third persons. The disclosure contents include but are not limited to asset names, mortgagee/pledgee, book-entry value of asset and term.

Derivatives. Chinese issuers must disclose names, trading purpose, trading structure, nominal principal and profit/loss of the derivatives held in the most recent period.

Taxes: Issuers in the Chinese market must disclose tax payable on the investment in debt financing instrument and tax policies relevant to the issuance and the issuer's financials. Chinese disclosure also requires a representation that tax disclosure does not constitute tax advice or for investors. Under the EU Prospectus Directive, if the securities have a denomination of less than €100,000, issuers must disclose, in respect of the country of the issuer and the country(ies) where the offer being made or admission to trading is being sought, information on taxes on the income from the securities withheld at source and an indication as to whether the issuer assumes responsibility for the withholding of taxes at the source. It is also market practice to include tax disclosure for securities with a denomination of at least €100,000.

In addition to the above, Chinese rules require disclosure of the following aspects related to the balance sheet:

- Material investment products and wealth management products – including trading purpose, structure, nominal principal amount, and recent profit/loss on the investment
- Overseas investment – including amount and relevant operating data
- Direct debt financing plan – including amount and progress in implementing the plan

With respect to the credit standing of the issuer, Chinese rules require the following disclosure:

- Credit ratings – historical over the last three years, with the credit rating agency and explanation of any symbols
- Credit facilities – lines of credit, and disclosure of which ones are used and unused
- Default record – Amount, time, reason and resolution progress of debt default over the past three years and the most recent period
- Historical issuance and repayment of debt

Credit enhancement

China requires the following disclosure with respect to credit enhancement:

- Information about the relevant institution. If the credit enhancement is provided by a professional credit enhancement institution, the issuer shall disclose the information in line with NAFMII's Self-regulatory Management Rules of China Interbank Market Concerning Credit Enhancement Business. If the credit enhancement is provided by other enterprises, the issuer shall disclose the information on relevant enterprises in the same way as the issuer.

- Contents of the guarantee or relevant credit support agreement, including amount, term, scope; rights and obligations of the enterprise, guarantors and creditors.
- Name of the collateral, the amount of the collateral (book-entry value and appraised value) and the ratio of the amount to the total face value and total principal and interest of the issued bond as well as evidence of any relevant collateral appraisal, registration, preservation and legal procedures.
- Relevant documents to certify security, mortgage, or pledge.
- Ongoing disclosure in case of material changes in the credit of the guarantor or collateral.

The EU Prospectus Directive requires disclosure of information on the provider of credit enhancement in line with the disclosure requirements for the issuer. Broadly speaking, disclosure must also include the terms and conditions for the validity of the credit enhancement, and whether or not the provider of credit enhancement enjoys a veto on the change of bondholders.

Institutions related to the issuance

Under both Chinese and EU rules, the issuer must disclose basic legal and contact information about institutions related to the issuance, including the underwriters, legal counsel, accounting firms, and as applicable, the credit rating agencies, credit enhancement institution, registrar, depositary, clearing agent, and other agents.

Under Chinese rules, the issuer must disclose material relationships between the issuer and related institutions or personnel of those institutions. Similarly, under EU rules, the issuer must disclose any persons or institutions interested in the recent issuance, with details of any conflicts of interest.

Reference Documents

In both the Chinese and international markets, an important aspect of disclosure is the set of documents incorporated by reference into the prospectus.

In China, these documents include the registration notice, public disclosure document and relevant approval documents on projects funded with the proceeds.

In the EU, documents incorporated by reference commonly include the financial information required to be disclosed. In addition, the EU Prospectus Directive requires the issuer to disclose where certain information can be inspected, including the issuers' articles of association, all reports, letters, other documents, historical financial information, information about valuation, information documents provided by third parties which is included or referred to in the prospectus.

D. Book building

In the context of a bond offering, "book building" is the process by which an underwriter attempts to determine at what price to offer a bond based on market conditions and demand from investors.

Generally, primary debt issuance in the international market features a shorter book building process than in China and fewer restrictions on the flow of information, subject to the general insider information regime.

Role of the underwriter
The international capital market relies more on the lead underwriter's experience and professionalism to guide the price dynamically before the final price is fixed. The lead underwriter will have some flexibility to decide at what time to publish the price, react to changes in global market conditions, and coordinate among international investors and distributors during the book building process.

China sets relatively detailed requirements mainly by NAFMII's self-regulatory framework for the issuance document and information flow to ensure the fairness of the issuance and allocation process. In China, pricing is also managed by the lead underwriter, but is a simpler process, less iterative, and completed at one time during the book building process. China sets the standard distribution flow and distribution period during book building, but the international capital market usually does not include the distribution flow.

Role of the issuer
The EU does not explicitly restrict the issuer from participating in the book building process. On the other hand, in the Chinese market, the book building process is organised by the lead underwriter, and the issuer is relatively isolated from investors.

Setting of distribution period
The international capital market does not set mandatory requirement for the issuance announcement and the payment notice, but requires the issuer to publish an announcement to the market at closing. China's interbank bond market sets express requirement issuance announcement and the payment notice. The international capital market does not set mandatory requirement for the issuance announcement and the payment notice, and China's interbank bond market sets express requirement issuance announcement and the payment notice.

In the overseas market, if the issuer finds a price advantage during book building, it can further optimise the price with simple steps. In China, if the same situation occurs, the issuer can also adjust the price range of book building and publish an announcement to the market. In the international capital market, if the issuer encounters favourable price momentum during book building, the issuer can further optimise the price.

International book building process

The book building process of an international bond offering is essentially a pricing discovery process between the joint bookrunners and the global investors. The joint bookrunners' objective in the book building process is to achieve the best pricing and sizing target for the issuer, commensurate with the issuer's sizing, pricing, tenor, distribution and ongoing market access objectives. The investors' objective in the book building process is to discover and achieve the pricing that meets the investors' risk and return targets.

The marketing of an international bond offering by a new or infrequent issuer is usually conducted through a global roadshow meeting with international investors. The purpose of the roadshow is to introduce the company's credit highlights, business strategies and recent developments to investors, maximising investors' attention and interest in the proposed offering and guiding investors to purchase the securities at the pricing range set by the joint bookrunners.

Usually a message of roadshow mandate will be sent to international investors at the opening time of the markets and the joint bookrunners of the transaction will decide to proceed with the transactions or not based on market conditions. This process is ongoing, however, and the result of the roadshow will not definitely determine whether or not the transaction proceeds to completion.

After investor meetings, the sales teams from the joint bookrunners will follow up with respective investors for feedback. The feedback collected through a roadshow usually serves as an important indication for the joint bookrunners to formulate an initial pricing view before the book building process starts. With sufficient and constructive investor feedback, the joint bookrunners decide on the "initial price guidance" (or more tentative "initial price thoughts") to start the book building process with the issuer's permission.

1. *Determine preliminary price range.* Determine preliminary guide in line with market situation and comparable deals.
2. *Investor feedback and discussion*. Investors give feedback, and the underwriting syndicate and the sales team communicate with investors. The sales team will mainly market credit highlights of the issuer mainly to global key investors, and guide investors to respond to the price range suggested by the book builder.
3. *Announce final price guide to the market*. The strategy to achieve the optimal price is to adopt the book building method, and the book runner will guide the market to realize the best momentum and achieve the optimal price.
4. *Price optimisation.* Investors give further feedback, and the underwriting syndicate and the sales team communicate with investors. Book building momentum will allow the issuer to further optimise the price over the price guide range published later.
5. *Decide final interest spread and size.*
6. *Announce investor allocation result.*
7. *Decide final price.*
8. *Execute subscription agreement.*
9. *Enter preliminary settlement instructions.*
10. *Perform final condition precedent checks.*
11. *Release issue proceeds to issuer against delivery of live global bond.*

A debut/infrequent issuer may initially approach banks for a possible transaction several weeks prior to public announcement (to allow for initial preparation), with a couple weeks then for a marketing roadshow prior to opening order books. A frequent issuer might contact banks for an immediate public announcement and simultaneous opening of order books.

From opening of order books to pricing is then usually intra-day business.

Pricing to closing tends to be five working days, with contractual signing two working days before closing and settlement.

Chinese domestic bond book building process

1. *Determination of preliminary price range.* After review of preliminary disclosure from the issuer, as well as the prevailing rates in the markets, the issuer and the lead underwriter determine the issuing interest rate range and will sign a letter confirming the price range for book building.
2. *Subscription offer.* The lead underwriter sends a subscription statement to members of the underwriting syndicate one day before the issuance, and publishes the statement to the market. This subscription statement includes major terms of the bond, the interest rate range of the bond, the subscription timeline and procedure, placement and payment terms of the bond, the contact information of the book runner, the designated payment account and other information.
3. *Placement and payment.* If the issuance uses the same book building process as public offering, each subscriber submits a binding, written subscription offer. The book runner notifies the underwriter of the issuance interest rate determined in line with the size of the bond and the book building process.
4. *Distribution.* The book runner sets the distribution period based on the investor demand, and arranges for

members of the underwriting syndicate to distribute the bond. The distribution period starts on the book building date and ends on the payment deadline.

5. *Listing and trading.* The members of the underwriting syndicate complete all placements to institutions outside the syndicate through distribution as stated in agreement among issuer, lead underwriter and other underwriters. The bond can circulate and trade in the interbank bond market from the first business day after payment is complete.

V. Recommendations

By comparing practices in China's interbank bond market and the primary international bond market, China could on one hand, draw on useful experience from the international market to align in appropriate ways with the international system, promote the opening up of the Chinese capital market and broaden cooperation between China and the global capital markets. On the other hand, the comparison also enables overseas institutions to better understand China's current market system and help more qualified overseas issuers and investors to enter the Chinese interbank market. NAFMII and ICMA will continue to undertake cooperative studies to promote mutual understanding and facilitate the common development of their bond markets.

A. Drawing on the information disclosure system from the international market

As the key element of NAFMII's registration system, information disclosure will continue to be improved in its effectiveness and soundness in order to better protect investors. In the international market, requirements on information disclosure concerning bond issuance to institutional investors are simpler than those concerning bond issuance to retail investors. With the development of China's real economy and market, it may be considered to remove unnecessary requirements and reasonably reduce the cost in information disclosure, consistent with the needs of investors. Efforts will be made to promote the integration of registration information disclosure and continuous information disclosure. International market practices such as medium-term note programmes and the shelf registration system are potential points of reference for China's interbank bond market.

B. Further developing due diligence standards

Market conventions with respect to due diligence have evolved over the long term in line with business practices in the capital markets. In view of the experience in the international market, NAFMII shall fully utilise the expertise of lawyers and accountants in their respective fields, and appropriately enhance their role in the due diligence process. Meanwhile, NAFMII will organise market players to revise relevant industrial standards or operational guidelines and update them from time to time according to market needs.

C. Further streamlining the issuance process and intensifying self-regulation during issuance

To improve issuance procedures in China's interbank bond market, it is helpful to draw upon international experience in book building. NAFMII shall optimise the issuance process in the domestic market, especially for relatively seasoned issuers, and enhance the role of self-regulation during issuance. NAFMII will also plan to streamline the requirements on information disclosure and review for registration to make the overall issuance process, including the book building stage, more efficient.

Conversely, certain aspects of the book building process in China's interbank bond market are of interest to international market participants and policymakers, and in particular could generate new ideas on how to further improve the transparency of book building in the international market.

VI. Appendices
A. Practices in the international debt capital markets

1. Due diligence
2. Disclosure in the prospectus
3. Book building of an international bond offering

1. Due diligence

Background

In the context of a securities offering, due diligence describes the process that an underwriter of debt securities may conduct, both independently and together with the issuer, in order to establish the completeness and accuracy of the information contained in the disclosure document used in connection with the offering. This disclosure document is known as the prospectus.

The due diligence process involves the collection, organisation and checking of information relating to an issuer of securities, the securities themselves and such other information as an investor may need in order to make an informed investment decision in relation to those securities.

In essence, due diligence is an investigation of an issuer's business, financial position and prospects. The underwriter will want to be confident that:

(i) the information contained in the prospectus is accurate in all material respects (this process is often referred to as "verification");

(ii) the prospectus does not omit any material facts (in other words, all material disclosure has been made); and

(iii) there are no other facts that would mean that the issue could not proceed -- even with adequate disclosure.

Why do due diligence?

The participants in the due diligence exercise are seeking to benefit from any defence to liability which may be available and to establish that due care has been taken to rebut any claim based on negligent misstatement.

What is the likely nature of a claim?

Most systems of securities regulation require that a disclosure document or prospectus is used in order to offer and place securities. The primary responsibility for the completeness and accuracy of the prospectus is placed on the issuer.

The particulars of any claim will depend upon the laws of the relevant jurisdiction(s) governing the debt securities as well as where they are sold or listed.

Claims tend to fall into one of three categories: misrepresentation, strict or other liability under relevant investor protection statutes or a claim for negligence. It is less likely that a claim will succeed where all material disclosure has been made and in some jurisdictions there are specific protections or exclusions from liability where the issuer and the underwriter have exercised a reasonable standard of care in the preparation of the prospectus.

How is due diligence undertaken?

The most common way in which an underwriter in the international capital markets will seek to discharge its reasonable standard of care is through so-called "verification" and "due diligence". Verification and due diligence are each directed towards separate concerns:

(i) Verification
Verification is where all the statements in the prospectus are checked to ensure that they are true, accurate and not misleading. It usually applies in venues that mandate it (such as some stock exchanges). Otherwise, verification may not be required or performed.

(ii) Due Diligence
Due diligence goes further than verification and will normally involve a more wide ranging review of the issuer and its business including (1) financial due diligence, (2) legal due diligence and (3) business due diligence.

The underwriters and their lawyers will manage the due diligence process as a whole but the underwriters are themselves principally responsible for the business due diligence (and to a lesser extent financial due diligence). Although the actual procedures undertaken in respect of (1), (2) and (3) described above will vary from issuer to issuer, on almost all public offers of debt securities a comfort letter from the issuer's auditors will be delivered as part of the financial due diligence and one or more legal opinions from the legal advisers retained will be delivered as part of the legal due diligence.

A substantial amount of information about the issuer is derived from the issuer's responses to a due diligence questionnaire. The questionnaire may ask for copies of documents or written responses to queries or it may ask the issuer to discuss responses at a due diligence meeting. Interviews with the issuer's management can be an important element of due diligence.

What types of due diligence are there?
The underwriter in an offering of debt securities will work closely with the lawyers to ensure that they understand the commercial issues so that adequate protections, such as representations, warranties and covenants are included in the legal documentation. In turn, all parties will work with the issuer, any local lawyers and the auditors.

The following is a summary of financial, legal and business due diligence:

(1) Financial due diligence
Financial due diligence focuses on ensuring that all financial information which is included in the prospectus is accurate and complete. The issuer's auditors will review in detail the issuer's financial statements and verify any financial information included in the prospectus with a view to issuing a comfort letter. The comfort letter describes the procedures undertaken by the auditors and the conclusions drawn by them as a result. These procedures vary but typically include a review of available post year-end accounts and discussions with management based on which certain conclusions are expressed as to the absence of adverse changes in identified financial statement items since the date of the last set of accounts disclosed in the prospectus.

The level of reliance an underwriter may place on the conclusions of third party experts such as auditors varies. The US market is an example of a higher standard where, while the underwriter is not expected to be a trained accountant, it is expected to be alert to inconsistencies in the audited financial statements (termed "red flags" after the U.S. *WorldCom* case – see detail below). If there is a red flag then the underwriter needs to look behind the audited results, and it may be liable to investors who have suffered a loss where it fails to do so.

The format of the auditors' comfort letter in the Euromarket is fairly standardised. ICMA worked with the main UK accountancy firms to produce a standard form comfort letter (accompanying a standard form arrangement letter), which is aimed at stand-alone investment grade debt issues. In the US market, the form of comfort letter which the underwriter will seek is the statement of accounting standards (**SAS**) 72 comfort letter. This comfort letter is available within 135 days of the issuer's latest audited or reviewed financial statements.

The WorldCom 2004 litigation:
While Sections 11 and 12 of the US Securities Act of 1933, as amended (the Securities Act) establish strict liability for false and misleading statements in prospectuses, both sections permit underwriters to defend a claim by showing that they performed reasonable due diligence. In addition Section 11 permits underwriters to rely on experts' reports such as audited financial statements. However, in the WorldCom litigation Judge Cote concluded that underwriters cannot rely solely on audited financial statements in circumstances where there are sufficiently serious "red flags" indicating that those financial statements could not be relied upon without additional due diligence procedures. The Court also held that the receipt of auditor comfort letters was not conclusive evidence of a reasonable due diligence investigation with respect to unaudited interim statements.

Judge Cote's opinion does not provide detailed guidance on how much diligence is enough, or when any particular piece of information will be found to rise to the level of a "red flag" requiring further investigation Instead, other than the obvious guidance that more diligence is better, underwriters will be subject to a court's interpretation.

(2) Legal due diligence

It is important to establish that each issuer is properly incorporated in its jurisdiction, that it validly exists and that it has the capacity to issue the securities (e.g. that there are no provisions in its incorporation documents that would prohibit the proposed issuance). The underwriter and its lawyers will also want to ensure that the debt issuance documentation has been properly authorised by the issuer, that it constitutes legally valid, binding and enforceable obligations.

In the context of a US transaction (e.g., where notes are sold to investors under Rule 144A of the U.S. Securities Act of 1933, as amended (the **Securities Act**)), the issuer may be required to set up a data room containing all of the its material contracts, which would be available for review by the underwriter's lawyers. The relevant lawyers may sometimes also be asked to investigate and confirm that the issuing of the debt securities does not put the issuer in breach of any covenants in any of its outstanding senior debt documents or other material agreements; this procedure is most likely used for a debut issuer or an issue with highly structured covenants such as with high yield issues.

In addition, for Rule 144A issuances, both issuer and underwriter's counsels will be asked to deliver a 10b-5 letter, which is a negative assurance letter (not a legal opinion) to provide negative assurance with respect to material misstatements and omissions in the offering document.

(3) Business due diligence

This mainly involves the underwriter looking at the prospects of the issuer. The underwriter may look at the issuer's strengths and weaknesses, production, sales, marketing, research and development and future strategy. The analysis will be both forward and backward looking. Forward looking diligence involves the underwriter determining that the issuer is sufficiently credit worthy and may involve looking at the issuer's business plans, forecasts and budgets and ensuring that each has been properly prepared and are based on appropriate assumptions and will usually conduct appropriate discussions on them with management. Where an issuer is highly rated it is likely that this diligence may not be undertaken unless there are reasons to doubt the rating. For a low or unrated issuer, an underwriter may wish to conduct its own internal credit analysis.

The procedures in relation to backward looking due diligence (i.e. reviewing the accuracy of historical disclosure) are described in "Due Diligence Procedures" below.

Verification and due diligence

The main purpose of verification and due diligence is to establish that the prospectus prepared by the issuer in connection with an offering presents a fair and balanced impression of the issuer's affairs and that, in doing so, it does not misrepresent or omit anything material.

There are two general points which should be borne in mind when considering the relevance of verification and due diligence in the context of limiting liability. Although verification and due diligence procedures are normally determined by the underwriter, it is in the interests of both the issuer and the underwriter to ensure that the process is conducted and recorded in a full and meaningful way.

Due diligence procedures

The extent of due diligence procedures will vary, depending on a number of matters, including the nature of the issuer and the securities offered, the investor base and where the securities are listed.

The ICMA Primary Market Handbook sets out Recommendation R3.3 and item 3.4 on due diligence:

> "R3.3 The appropriate level of due diligence to be performed in the context of each issue should be considered carefully.
>
> 3.4 It is impossible to prescribe whether or what due diligence procedures would be appropriate in the circumstances of each issue, and procedures will vary greatly from issue to issue (depending, for example, on the type of securities being issued, the rights attached to those securities and the nature of the issuer and its business)."

Underwriters of securities in the international capital markets will typically follow ICMA guidance.

When considering what counts as an "appropriate level" of due diligence, the guidance leads you back on the standard of what is reasonable in the circumstances of the particular issue, including those factors listed in the ICMA Guidance.

Therefore, generally speaking, it is likely that the most limited procedures will be undertaken for a highly rated frequent issuer whereas an issue by a sub-investment grade debut issuer in an emerging market might merit a higher degree of due diligence.

Generally, the due diligence procedure which an underwriter may adopt for issues of debt securities in the Euromarket could potentially involve, as appropriate in the specific circumstances:

- A first time, or very infrequent issuer where a new prospectus is drafted, the starting point will either be the delivery of a due diligence questionnaire or a series of meetings at which presentations are made by the issuer in respect of its business. The questionnaire will be detailed and will be designed to elicit as much information as possible about all relevant aspects of the issuer's business. In contrast, where the issue is by a frequent issuer, the preparation involves updating to the extent necessary, the previous prospectus.
- Examples of steps taken to complete the due diligence:
  - (i) A telephone call between the underwriter and senior management of the issuer before the issue is launched. The purpose of this call is to obtain confirmation that there are no significant factors affecting the issuer which have not been made public and which, if they were made public, might affect an investor's investment decision. This procedure might be used for all issuers except, possibly, a highly rated frequent issuer.
  - (ii) A due diligence meeting where a formal due diligence questionnaire is delivered in advance and answered by duly authorised members of management. This could be done in a meeting or by telephone conference call. This procedure might be used for an infrequent but still credit-worthy issuer.
  - (iii) As part of the verification, there might be on-going reviews of the prospectus and discussions with appropriate members of management as to its content. The purpose here is to check that there is no material misstatement in the prospectus and that there is no material information excluded from the prospectus. This review and discussion process is used in the context of a first time issuer and might also be used where the issuer lacks experience in preparing disclosure documents or where considerable time had elapsed since the disclosure was last updated.
  - (iv) There may be a documentary review based on a list of documents submitted by the underwriter's lawyers. The list will typically include the incorporation and authorisation documents of the issuer, certain of the company's material commercial contracts and borrowing documentation. The issuer may set up a data room if there are substantial documentary requirements. It would be unusual to have a documentary review for an established borrower.
  - (v) An underwriter might also undertake its own credit checks by internal credit analysts.
  - (vi) As part of the subscription agreement, the underwriter will want to ensure that it receives appropriate representations and warranties from the issuer and these will need to be confirmed by way of a certificate delivered at closing. The underwriter will always require an indemnity from the issuer for actual or alleged breaches of the representations and warranties.
  - (vii) Although relatively uncommon in the Euromarket, other procedures could include a review by lawyers of the issuer's major commercial contracts and other significant corporate documents, site visits to the issuer's key facilities and interviews with important third parties such as regulators, suppliers, customers or lenders having a relationship with the issuer. These procedures are more common for issues to be sold into the U.S.

U.S. style due diligence

The following procedures are an example of those that may be undertaken for a debut issuer seeking to access the 144A market, but those for more frequent issuers perhaps accessing the market via an SEC shelf take-down may vary significantly.

The procedures for a debut bond issue undertaken for due diligence in U.S. issues do not differ to a great extent, except in the depth of investigation, from the procedures set out above. The principal difference is that whereas in European issues only certain of the procedures listed may be used, in U.S. due diligence all the procedures are likely to be used during the course of each due diligence exercise.

A thorough due diligence investigation can form the basis of a due diligence defence for actions under the Securities Act and the U.S. Securities Exchange Act of 1934 (the **Exchange Act**). In the U.S., liability for the prospectus extends beyond the issuer of the debt securities to include the underwriters. Due diligence is therefore very thorough so as to allow the lawyers to issue a "10b-5 letter" which states, in effect, that in the course of a law firm's work on the registration statement, or in the context of an issue of securities under Rule 144A, nothing has come to their attention which gives them reason to believe that it contains any material misstatement or omission of a material fact.

As in European due diligence, tasks are allocated so as to reflect the professional expertise of the parties involved (i.e., investment bankers, lawyers and auditors), but it may be that further specialist expertise is required generally, or to draft specific parts of the prospectus (e.g., mining consultants, shipping brokers).

Early on in the process, the underwriter will attempt to become as familiar as possible with the issuer's industry. Documents that are reviewed will include prospectuses, annual reports and analysts' reports with respect to other corporations in the issuer's industry. The underwriters also typically consider bringing their research analyst "over-the-wall" to assist in due diligence. If the industry is highly regulated (e.g., insurance, communications, banking, etc.), the underwriters will typically review and become familiar with the major regulations in the industry and how they might affect the business of the issuer. The underwriters will also want to understand the accounting practices followed in such industry and whether there is variance among companies in the industry. The issuer's auditors will assist with this. If appropriate to the issuer, the underwriter and its lawyers will visit one or more of the issuer's facilities (e.g. a factory) if only to get a feel for the business.

Lawyers for the underwriters will produce a document request list, which will ask for specific documents as well as general categories of documents (e.g. loan agreements, material contracts). The documents will usually be sent to the lawyers (or copied) but there may also be visits to the issuer's offices to inspect the originals.

Prior to a line-by-line drafting session of the prospectus, one or more meetings are usually held with the principal officers of the issuer. Often, the issuer, if asked, will organise a presentation by the operating officers from each of its major operating subsidiaries or divisions in order to give the underwriters and their lawyers a general overview of the issuer's business. The underwriters and lawyers will want to have a separate meeting with specific officers or employees of the issuer that are responsible for key areas, e.g., depending on the business, government regulation, environmental compliance, employee relations, intellectual property or litigation. There will be a meeting with the chief executive officer and chief financial officer of the issuer to review broad aspects of the issuer's business as well as obtain their personal assessment of the issuer's strengths and weaknesses.

The issuer's auditors perform two functions in U.S. due diligence: (i) as experts regarding the audited portions of the prospectus, via provision of a comfort letter in line with SAS 72; and (ii) as an important source of information about the issuer's financial statements, accounting records and accounting policies and practices. The latter of these two roles assists the underwriters in performing the appropriate investigation of the issuer's business, although recently U.S. auditors have tried to distance themselves from the due diligence process by placing self-imposed limits on their involvement. U.S. auditors are currently in discussions with underwriters and other market participants as to their future level of involvement in the due diligence process, but pending the outcome of these talks underwriters should ask questions of the auditors, including with respect to:

- changes or proposed changes in accounting policy (either by the issuer or with respect to the issuer's industry);
- possible fraud or illegality;
- adequacy of accounting controls;
- capability of the financial and accounting team of the issuer;
- reportable conditions; and
- Issues identified in annual management letters.

Given the auditors' knowledge of the issuer and its business, it is preferable to have the accountants present during drafting sessions to the extent practicable.

The underwriters should also consider having discussions with the issuer's major lenders as well as several of the issuer's major suppliers and customers. These discussions should be without the issuer present (the issuer's lawyers may attend, at the discretion of the underwriter), though with a debrief discussion of the results with the issuer afterwards. These discussions, particularly the discussions with customers and suppliers, should be at a point well into the due diligence process when the underwriters have a good understanding of the issuer's business and therefore can have more meaningful discussions with such parties.

In most offerings, the issuer is required to include detailed information with respect to its officers and directors. It is standard procedure for the issuer's lawyers to prepare and circulate an officers' and directors' questionnaire to each relevant officer and director of the issuer. Lawyers for the underwriters will review the completed questionnaires and compare the answers with the information in the prospectus as currently drafted. Discrepancies will be followed-up.

Due diligence is crucial at the start of the issue process, when negotiating the underwriting agreement (e.g. in terms of representations and warranties) and comfort letters, and in the later stages, when drafting and reviewing the prospectus. To reflect its importance, the underwriters' lawyers will often prepare a due diligence memorandum. This provides a summary of the materials which have been reviewed. This is useful both prior to issue and after as a record of what has actually been reviewed in the due diligence process. The underwriters' lawyers may also prepare a due diligence file providing a record of the due diligence investigation conducted in connection with the offering (in case of litigation) and a source of materials for any future transactions by the issuer. The file will generally contain a copy of all document request lists sent to the issuer; a clean copy (no notations) of all documents provided by the issuer for review; and a copy of the due diligence memorandum.

Document request list

This list is a summary of the type of documents that are commonly requested for U.S. style due diligence and is not intended to be exhaustive or conclusive. It is important to note that not all of these documents would be requested for every deal, particularly with more seasoned or frequent issuers.

(i) Corporate books and records: incorporation documents of the issuer and other relevant group companies (guarantors and foreign branch registration documents); minutes of board, shareholder and committee meetings; reports to shareholders and other shareholder documents/ agreements.

(ii) Financial information (for relevant group companies): financial statements (internal reports and audits, and related correspondence); tax returns); indebtedness documents/agreements.

(iii) Employee materials: employment agreements; consulting agreements; union or other employee representation related documents; employee handbooks; schedules of salaried and hourly employees; organisational information (detailed organisation chart, list of all directors and officers).

(iv) Contingent liabilities: litigation; regulatory compliance.

(v) Contracts, agreements and other arrangements: agreements not in ordinary course of business (e.g., joint ventures); key customer contracts; key supply contracts; material agreements relating to product warranties, distributorship, advertising and manufacturing agreements).

(vi) Intellectual property rights: trademarks, licences, patents, copyrights and related agreements; pending litigation; agreements relating to employee/consultancy ownership.

(vii) Plant, property and equipment: real property documents; personal property documents (e.g. leasing agreements); related appraisals/ valuations.

(viii) Insurance.

(ix) Market information: competitor details and analysis of competitive markets; sales volumes; sample customer contracts; list of 10 largest suppliers; research and development plans; correspondence and other documents relating to negotiations with competitors of the company for most recent three to five years, depending on the issuer.

(x) Materials for public companies (if applicable): SEC Filings; forms and proxy statements for most recent three to five years, depending on the issuer; any Securities Act registration statements, including any post-effective amendments; recent written presentations to security analysts; recent security analyst research reports; press releases for most recent three to five years, depending on the issuer.

(xi) Miscellaneous: any shareholder rights agreements; description of subsidiaries, joint ventures, partnerships, etc.; future acquisition or disposition plans; future restructuring plans; company's information management system description, including any future changes planned.

2. Disclosure in the prospectus

The prospectus is the primary legal and marketing document that an issuer uses to solicit investors for a transaction. The prospectus must cover all aspects of a particular transaction, including the overview of the issuer, terms and conditions of the Notes, risk factors, and financial statements.

Compared with Regulation S transactions, Rule 144A transactions commonly entail due diligence to meet a U.S. 10b-5 standard, following SEC-registered practice more closely. As a result, there is commonly a "Management's Discussion & Analysis" section and "Industry Overview" section in the disclosure for 144A offering documents, which is not as common in Regulation S-only transactions.

A Regulation S offering has no legally binding checklist for disclosure; however, for a Chinese issuer, the OM will usually cover the following information:

1. A **summary** with
    a. a business overview;
    b. past 3 years' financial statements (including profit & loss, balance sheet, and cash flow statement); and
    c. summary terms of the Notes.
2. The **business overview** is extracted from the Description of the Issuer section. Financial summary puts the 3-year financials side by side for easy comparison. Summary terms only highlight the key components of the terms and will usually refer to the detailed clause in later section.
3. **Risk factors** that cover:
    a. issuer's business and financial performance;
    b. the industries in which the issuer operates in;
    c. supervision and regulation in relevant jurisdictions; and
    d. the characteristics of the security and its trading markets.

The issuer must disclose any information that may affect investors' decision and the future value of the investment, so that the investors can make an informed decision. While the purpose of disclosing risk factors is to protect issuer from liability against investors, marketing considerations are usually also taken into consideration.

4. **Use of Proceeds** which specify the approximately net proceeds received (after considering the discount of the issue price and deducting fees and expenses) and the use of proceeds.
5. **Capitalisation**, covering the capitalisation situation before the offering (as shown in the latest financial statement included in the OM) and pro-forma (post the offering) to indicate how the particular offering will affect issuer's capital structure.
6. **Terms and Conditions of the Notes**, including interest, payment frequency, calculation base and maturity date.
7. **Covenants**, including:
    a. Financial covenants (though normally in high yield issuances only), negative pledge, change of control put, and/or other material legal provisions;
    b. Events of default; and
    c. Circumstances, if any, under which the notes are callable.
8. **Description of issuer's business**, including, where relevant:
    a. Strengths and strategies;
    b. Business model;
    c. Products and services;
    d. Customers;
    e. Suppliers; and
    f. Corporate structure (including major operating subsidiaries and affiliates).
9. **Supervision and regulation**, with a description of the relevant regulatory environment.
10. **Management**, describing corporate governance and the composition and capability of the management, in particular:
    a. Biographies of directors and officers, and their experience with issuer and within industry;
    b. Board structure and board committees; and
    c. Share ownership and stock option plans for management.
11. **Related-party transactions**, which may or may not benefit the issuer.
12. **Financial situation** ("F-pages"), including the audit report, the full text of the financial statements themselves, and the notes to the financial statements.
13. **Management Discussion and Analysis** (MD&A), which is intended to describe historical and public prospective results through the eyes of management, and provide context to recent financial performance.
14. **Industry**, including information about the market environment and competitive landscape. Data from third-party sources must be obtainable, reputable and citable.

Generally, the U.S. and Chinese systems are "disclosure-based": they place importance on transparency and information for the investor in order to make an informed investment decision. To that end, at the meeting, a high level summary of bond prospectus disclosure was divided into disclosure about:

1. **The business.** The investor needs to know what the business is that he is investing into.

2. **The offering.** The investor needs to know what the financial instrument is that he is investing into, including the terms and conditions of that financial instrument.
3. **The financial information.** In addition to the qualitative description of the business, the investor needs to know what the financial information of the company is in accordance with Regulation S-X. And both the management (see "Management's Discussion and Analysis" below) and the outside audit/accountant work thereon.
4. **The legal and miscellaneous information**. In connection with a bond offering, there are other factors that could be material to an investor's decision to invest or not. Such information I required to be included. For example, disclosure on taxation.

The following is a typical contents page from a 144A transaction:

- Certain Definitions, Conventions and Currency Presentation
- Notice Regarding Presentation of Financial Information
- Forward-Looking Statements
- Enforcement of Civil Liabilities
- Summary
- The Offering
- Summary Consolidated Financial and Operating Data
- Risk Factors
- Use of Proceeds
- Ratio of Earnings to Fixed Charges
- Capitalisation
- Our History and Corporate Structure
- Selected Consolidated Financial and Operating Data
- Management's Discussion and Analysis of Financial Condition and Results of Operations
- Business
- Regulation
- Our Directors
- Our Executive Officers
- Principal Shareholders
- Related Party Transactions
- Description of Material Indebtedness
- Description of the Notes
- Ratings
- Taxation
- Plan of Distribution
- Transfer Restrictions
- Legal Matters
- Independent Registered Public Accounting Firm

- General Information
- Index to Consolidated Financial Statements

Marketing of an international bond offering

The marketing of an international bond offering by a new or infrequent issuer is usually conducted through a global roadshow meeting with international investors. The purpose of the roadshow is to introduce the company's credit highlights, business strategies and recent developments to investors, maximising investors' attention and interest in the proposed offering and guiding investors to purchase the securities at the pricing range set by the joint bookrunners.

Once the message is out, sales staff from the joint bookrunners will contact respective investors, providing them with time slots for meetings and investor luncheons as appropriate. For Reg S transactions, the target investors are usually based in Asia and Europe, so the roadshow locations for Reg S transactions usually include Hong Kong, Singapore and London. For 144A transactions, U.S. QIBs are also targeted so the roadshow team will also visit New York, Boston, and sometimes Los Angeles and San Francisco, in addition to Hong Kong, Singapore, and London.

After investor meetings, the sales teams from the joint bookrunners will follow up with respective investors for feedback. The feedback collected through a roadshow usually serves as an important indication for the joint bookrunners to formulate a pricing view before the book building process starts. With sufficient and constructive investor feedback, the joint bookrunners determine on the "initial price guidance" (which may continue to evolve as the deal progresses) to start the book building process with the issuer's permission.

	Regulation	**144A**
Locations	Hong Kong Singapore London	Hong Kong Singapore London New York Boston Los Angeles (Optional) San Francisco (Optional)
Time	2-3 days roadshow	4-5- days roadshow
Format	1-on-1 meetings Multiple-on-1 meetings Luncheon (Hong Kong and Singapore Only)	1-on-1 meetings Multiple-on-1 meetings Luncheon (Hong Kong and Singapore Only)

3. Book building of an international bond offering

The book building process of an international bond offering is essentially a pricing discovery process between the joint bookrunners and the global investors. The joint bookrunners' objective in the book building process is to achieve the best pricing and sizing target for the issuer, commensurate with the issuer's sizing, pricing, tenor, distribution and ongoing market objectives. The investors' objective in the book building process is to discover and achieve the pricing that meets the investors' risk and return targets.

The book building process usually starts with announcing the initial price guidance ("IPG") or IPTs (initial price thoughts if book not open yet). The IPG is determined based on the feedback collected during the roadshow, market conditions and the secondary trading levels of the comparable notes on the day of book building, and a trade-off between the issuer's pricing and sizing target. In order to generate stronger momentum, IPG given to the market may be "wider" (i.e. higher yield to investors) than the issuer's and joint bookrunners' pricing target. The

purpose is to encourage more investors to participate in the book building process and generate a larger order book.

Once the IPG is announced to the market, the sales team of each joint bookrunner will start to communicate with investors, collecting investors' thoughts on orders and indicative pricing. Investors will then formulate their views on orders based on the IPG and usually they will add a pricing limit to their respective order.

For most Asian targeted USD deals, the book building process starts from Asia then goes to Europe and US (144A deal only). Investors in different locations will provide their respective order and pricing targets to sale teams of joint bookrunners. However, sometimes the book building process could also start from US (for some US targeted 144A / SEC Registered deals) or Europe (some EUR deals) and come back to Asia.

Once the joint bookrunners have collected sufficient orders and have a clearer view on investors' thoughts of pricing, the joint bookrunners will decide and announce Final Price Guidance ("FPG") to the market. The FPG provides a substantially closer guidance to the final pricing. With FPG, investors will leave their final orders and pricing limit to the joint bookrunners, allowing the joint bookrunners to decide and confirm the final price and size of the proposed transaction.

After all investors confirm their orders, the joint bookrunners will start allocating the bonds to investors, according to the issuer's preference and joint bookrunners' understanding of investors (partly based on behaviour in past transactions). "Buy-and-hold" investors are generally preferred over "opportunistic" investors who may immediately sell the notes once the notes start trading in the secondary markets in order to lock in profits.

Below are some general factors that bookrunners will consider when allocating new issues:

- Issuer's specific preference
- Size of an investor's expressed interest (both absolutely and relative to the investor's portfolio or assets under management)
- Investor's historical volume of transactions and trading behavior in past issues generally
- The nature and level of interest shown by the investor in the issuer and the particular offering, for example its involvement in road shows, and the quality and timeliness of feedback
- Timeliness of investor's interest
- Any indication or belief that the investor has exaggerated the true extent of its interest in the expectation of being scaled down
- Category or description into which the investor falls (e.g. mutual fund, banks, hedge fund, trading); and
- Whether the investor had made a reverse inquiry in connection with the issuance and the importance of that investor's participation to that issuance

Allocation should not be determined by the amount of trading, commission or other income received or expected by the firm from business with a particular investor client.

Finally, once all factors are confirmed, the deal would be considered priced. For investment grade transactions, the lead managers would also be required to lock in treasury rates at the time of pricing to determine the final yield of the proposed transaction.

Timetable of the book building process of an international bond offering (for 144A/Regulation S international bonds)

For Asian transactions, pricing usually takes place during early London afternoon (Regulation S) or early New York afternoon (Global/144A). In either case, investors globally are given the opportunity to consider participating in the transaction. Asian local currency transactions are priced during Asian trading hours. Occasionally, Regulation S USD deals are priced in the Asian time zone as well, highlighting the growing importance of the Asian investor base.

Below is a standard 144A transaction timetable:

Time zone			Key work streams
China / HK	**UK[1]**	**NY**	
8:30 a.m.	-	-	• *Go/ No-Go Call with Company* • The company decides IPG
09:00 a.m.	-	-	• Announce IPG to the market
02:30 p.m.	-	-	• joint bookrunners update company on market conditions and order book
03:00 p.m.	08:00 a.m.	-	• London market opens
04:30 p.m.	09:30 a.m.	-	• Asian book building closed subject to any overriding input • joint bookrunners update the company on market conditions and Asian and European investor order book
05:00 p.m.	10:00 a.m.	-	• Announce FPG to the market
06:00 p.m.	11:00 a.m.	-	• Europe book building subject
08:00 p.m.	01:00 p.m.	08:00 a.m.	• US market opens
10:00 p.m.	03:00 p.m.	10:00 a.m.	• US book building subject
10:30 p.m.	03:30 p.m.	10:30 a.m.	• joint bookrunners update the company on market conditions and overall investor order book
11:00 p.m.	04:00 p.m.	11:00 a.m.	• Determine final spread (Investment Grade) / yield (High Yield) and size • Launch the transaction and start investor allocation
11:30 p.m.	04:30 p.m.	11:30 a.m.	• Announce investor allocation results
11:45 p.m.	04:45 p.m.	11:45 a.m.	• Pre-pricing bring-down Due Diligence call
00:00 a.m. (Day 2)	05:00 p.m.	12:00 p.m.	• Pricing[2]
00:15 a.m. (Day 2)	05:15 p.m.	12:15 p.m.	• Finalise offering circular
00:30 a.m. (Day 2)	05:30 p.m.	12:30 p.m.	• Execute and sign the purchase agreement (US practice) • Execute and sign the comfort letters (US practice)
00:45 a.m. (Day 2)	05:45 p.m.	12:45 p.m.	• Finalise the indenture (US practice) Eurobond practice is for docs execution at T+3

Notes:
[1] UK timetable reflects summer times.
[2] The timing of final pricing will be subject to market conditions and book building profile on the pricing date.

B. Practices in the Chinese interbank bond market

1. Due diligence
2. Information disclosure
3. Book building

1. Due diligence

A. Definition of due diligence

Due diligence on debt financing instrument means that relevant intermediaries, on the principle of diligence, performance of responsibility and honesty, adopt various effective methods and steps to fully investigate the issuer. The purpose is to grasp the legal status of the issuer's qualifications, asset ownership, claims and debts and other major matters as well as its business, management and financial status, and make judgment on the issuer's will and capability of repayment, so as to reasonably confirm the authenticity, accuracy and completeness of the registration documents.

With the development of China's bond market and the continuous expansion of the interbank bond market, and according to the *Administrative Rules on Debt Financing Instruments of Non-financial Enterprises* issued by the People's Bank of China (PBC), National Association of Financial Market Institutional Investors (NAFMII) formulated the *Guideline on the Due Diligence on Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Market* (Guideline on the Due Diligence) and the *Rules on Intermediary Service for Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Market* (Rules on Intermediary Service) in April 2008 to standardize the due diligence conducted by lead underwriter of debt financing instruments of non-financial enterprises in the interbank bond market on the prospective issuers. The enactment of the above guidelines and rules further clarified the contents, methods, principles and requirements of due diligence and played a positive role in standardizing this work.

B. Effect of due diligence

(i) Effect of due diligence on investors
For investors, due diligence can reduce information asymmetry between investors and the issuer, provide information for investors to identify investment risks, and help them reasonably price the debt financing instruments.

(ii) Effect of due diligence on issuers
Due diligence can help issuers provide more sufficient and reliable information for the market, which is good for faithfully reflecting the issuer's risk level and promoting reasonable pricing of debt financing instruments.

(iii) Effect of due diligence on intermediaries
Due diligence conducted by lead underwriter is the basis and core of the due diligence on debt financing instruments. It provides overall guidance and reference for the due diligence conducted by other intermediaries.

C. Main contents of due diligence

In the Chinese interbank bond market, due diligence on finance and business is carried out by the lead underwriter with assistance from accountants.

Due diligence conducted by lead underwriter is the basis and core of the due diligence on debt financing instruments. It is featured by the largest scope and highest quality requirement compared with due diligence conducted by other intermediaries.

The purpose of due diligence conducted by lead underwriter is to prudently verify the authenticity, accuracy and completeness of the registration documents of debt financing instruments, ensure the quality of information disclosure for the issuance of debt financing instruments, and lay the foundation for offering advice to issuers on the issuance of debt financing instruments. The key meaning of lead underwriter's due diligence is to reduce information asymmetry on debt financing instruments and improve market efficiency. This includes reducing information asymmetry between investors and the issuer, promoting the reasonable pricing of debt financing instruments and lowering the operating cost; reducing information asymmetry between NAFMII and the issuer, improving the efficiency of self-regulation, and lowering the cost of self-discipline; identifying the issuer's investment highlights, urging it to improve the capability of information disclosure and standardized operation, and helping it lower the

financing cost; lowering the regulatory, underwriting and reputational risks faced by lead underwriter; and providing the overall guidance and reference for the due diligence conducted by other intermediaries.

In the Chinese interbank bond market, the lead underwriter assists the issuer in writing the prospectus of debt financing instruments. The issuer's attorneys carry out due diligence and issue the Legal Opinion based on the results, which concerns the following main matters: whether the registration procedures stipulated by NAFMII have been fulfilled for the issuance of debt financing instruments and whether the registration notice issued by NAFMII has been received; whether the issuer has made the legal and valid decision to apply for registration and issuance of debt financing instruments according to its Articles of Association or similar documents; the legality of underwriting arrangements and legal papers, etc.

D. Main stages of due diligence

Due diligence is a special duty of all agencies. Agencies that participate in the issuance of debt financing instruments shall perform their duties and observe professional ethics. They shall abide by the following principles in the process of due diligence: (1) independence; (2) comprehensiveness; (3) objectivity; (4) importance; (5) flexibility; (6) prudence; (7) confidentiality; and (8) cooperation.

Due diligence on debt financing instruments conducted by lead underwriter usually includes preliminary due diligence, comprehensive due diligence and tracking due diligence. Preliminary due diligence refers to the basic investigation conducted by lead underwriter when undertaking the business to judge whether the issuer is qualified to issue debt financing instruments. Comprehensive due diligence refers to the process in which the lead underwriter comprehensively understands the issuer, fully understands its operation, risks and problems, has sufficient reasons to believe it is qualified to issue debt financing instruments, and confirms the authenticity, accuracy and completeness of the registration documents and prospectus. Tracking due diligence refers to that in the duration of debt financing instruments, the leader underwriter has to pay consistent attention to the enterprise's profitability, industrial trend and correction to problems mentioned in the due diligence, and adjust the scheme depending on the correction.

E. Procedures of due diligence

According to NAFMII's existing self-regulatory rules and in reference to market practice, due diligence process mainly includes the following aspects:

(i) Building a team: the investigation team is mainly composed of people from the lead underwriter's headquarters and those from its branches can provide assistance;

(ii) Making work plan and holding project kickoff meeting: the work plan mainly includes objective, scope, approach, time and process of work, division of duty, personnel, etc.;

(iii) Submitting list of due diligence: submitting the list of due diligence is an important step of due diligence. The issuer has to prepare materials according to the list and submit the materials to the due diligence team within the specified time;

(iv) Interview: on the basis of a preliminary analysis of the obtained due diligence materials, an interview outline shall be prepared and submitted to the enterprise in advance. The outline includes doubts about the materials and some questions on which interviews can help better understand corporate information;

(v) Drawing conclusion about due diligence: the lead underwriter shall put together a draft according to the obtained due diligence materials and records of interviews;

(vi) Tracking due diligence: this includes regular tracking due diligence and irregular tracking due diligence.

F. List of files for due diligence

The following list of common files for due diligence is provided for reference only.

(i) Basic corporate materials
(1) Articles of Association; (2) Brief introduction of corporate history and chart of equity structure; (3) Duplicate of business license and certificate of organization code; (4) Organizational structure and descriptions of departmental functions; (5) List of members of the board of directors, board of supervisors and senior executives, and their resume; (6) Age structure and educational background of employees; (7) Qualifications obtained by the company; (8) Certificate of tax payment.

(ii) Business materials
(1) Materials about corporate operation; (2) Work summaries; (3) Materials about future expenditure; (4) Future plans for asset acquisition and sale; (5) Main corporate regulations; (6) Strategic plans and business development plans for the company.

(iii) Financial materials
(1) Audited financial statements in the past three years; (2) Number of cooperative banks, credit line, content and term of credit, unused credit line; (3) Details of guarantee provided by the company and information on important guaranteed enterprises; (4) Affiliates and related-party transactions of the company; (5) Information on the company's restricted assets; (6) Major outbound commitments made by the company; (7) Information on major lawsuits and other major matters concerning the company; (8) Information on major wealth management, investment and derivative transaction conducted by the company; (9) Information on the company's overseas assets; (10) Information on the company's direct debt financing and future financing plans.

(iv) Materials about the industry the company engages in:
(1) Impacts of macro-economic situation on the industry the issuer engages in; (2) Local economic situation; (3) Overview of industrial development and competition (materials about main competitors), materials about industrial cycle, important industrial policies; (4) Materials that can prove the industrial standing of the issuer.

2. Information disclosure

If the issuer adopts public offering or private placement to register debt financing instruments, it shall prepare the registration documents in accordance with the requirements of the appropriate form system. The specific requirements of registration documents and information disclosure are as follows:

i. The Form System for Public Offering

1. The Form System includes the list of registration documents and information disclosure forms.

   The details are as follows:

   1) The list of registration documents lists the written materials that shall be submitted to National Association of Financial Market Institutional Investors (NAFMII) for the registration or filing for the issuance of debt financing instruments.

   2) The contents of the information disclosure forms are the minimum information disclosure requirements of registration documents, including Form M (prospectus disclosure form), Form G (issuance announcement disclosure form), Form J (issuance plan disclosure form), Form C (financial statement disclosure form), Form F (legal opinion disclosure form), Form P (rating report disclosure form), and Form Z (credit enhancement disclosure form). Each form is named by the initials of the phonetic alphabets of the key words of its Chinese name.

The sub-forms of Form M include Form M.1 (the information disclosure form relating to production safety), Form M.2 (the information disclosure form relating to non-standard unqualified audit report), Form M.3 (the information disclosure form relating to related party transaction), Form M.4 (the information disclosure form relating to

restructuring of major assets), and Form M.5 (the information disclosure form relating to credit enhancement). The sub-forms of Form P include Form P.1 (the information disclosure form relating to corporate credit rating report), Form P.2 (the information disclosure form relating to debt rating report), Form P.3 (the information disclosure form relating to the rating of credit enhancement agency) and Form P.4 (the information disclosure form relating to follow-up rating report). The sub-forms of Form Z include Form Z.1 (the information disclosure form relating to the letter of credit enhancement) and the like.

2. The enterprises, the intermediaries providing professional services, and the related personnel shall prepare the registration documents in an order and give professional opinions in accordance with the relevant laws and regulations, normative documents and rules of self-regulation and shall bear legal liability for the registration documents and opinions that they issue.
    1) The accounting firm shall audit the enterprise and issue an audit report in accordance with the relevant provisions.
    2) The accounting firm shall give a definite opinion on the relevant matter in the legal opinion on the basis of adequate due diligence.
    3) The rating agency shall issue the rating report in accordance with the Guiding Opinions of the People's Bank of China for the Management of Credit Rating, the Self-disciplinary Guidelines for Credit Rating Business in the Debt Financing Instrument Market, and other relevant provisions.
    4) The credit enhancement agency shall issue the credit enhancement documents in accordance with the Rules on Self-disciplinary Management of Credit Enhancement Business in China's Interbank Market and other relevant provisions.
    5) The lead underwriter shall fill in the list of registration documents and information disclosure forms in accordance with the requirements of this Notice.
3. The lead underwriter shall fill in the sub-forms based on the actual situation of debt financing instruments; the enterprises and related intermediaries shall further disclose the relevant information in accordance with applicable sub-forms.
4. Where the enterprise prepares the financial statement in accordance with the Accounting Standards for Business Enterprises and the Guidelines on the Application (the "new accounting standards"), it shall fill in Form C. Where the enterprise is in a special industry and prepares the financial statement in accordance with the Enterprise Accounting Rules, the Industrial Enterprise Accounting Rules and other provisions ("the old accounting system"), it shall comply with the relevant accounting standards and systems and can do without filling in Form C.
5. The lead underwriter shall fill in the forms according to the following requirements:
    1) List of registration documents: The name of issuer, term of debt financing instrument, number of issues, and variety shall be filled in on the top of the form of list of registration documents. Where the documents corresponding to "Document type" are available, tick (√) the corresponding places below the "Registration" or "Filing."
    2) Catalog of information disclosure forms: Tick the applicable form (multiple choices) and fill in the form selected based on the different scenarios listed below the "Applicable scope." For example, the enterprise which has a work safety accident and the audit report is non-standard unqualified, it shall tick M.1 and M.2 below the "Options" item in the catalog of Form M and fill in the above forms.
    3) Page: The specific page range of the disclosed part in the document shall be filled in below the "Page" item. For example, the part of "Risk warning and notes" in the prospectus is from page 5 to page 9, fill in "5-9" in the place corresponding to M-2 and below the "Page" item.
    4) Notes: For the inapplicable information or matter that shall be specially explained, explain in the appropriate place below the "Notes" item.
    5) Signed and sealed by the related personnel of the lead underwriter: After confirming that the list of registration documents and information disclosure forms are completely filled in and all relevant

documents are available, the leader of the related department, team leader and related personnel of the lead underwriter shall separately sign or seal the item of "Signed and sealed by the related personnel of the lead underwriter."

6) Signed and sealed by the lead underwriter: The item "Signed and sealed by the lead underwriter" in the list of registration documents shall be stamped with the official seal of the relevant business department of the lead underwriter. The list of registration documents and information disclosure forms shall be stamped with the official seal (cross-page seal) of the relevant business department of the lead underwriter.

ii. List of Registration Documents

(No._____ Issue of_____of_____Company in_____)

No.	Document type	Options		Notes
		Registration	Filing	
Y-1	Registration statement			
	- Attached with the business license			
	- Attached with the Articles of Association and the consistent resolution of the competent authority		—	
	- Attached with the decryption instruction (if any) of the related enterprise			
Y-2	Recommendation letter		—	
Y-3	Prospectus			
Y-4	Issuance announcement			
Y-5	Issuance plan (if any)			
Y-6	Latest issue of financial statement			
	Audited financial statement and accounting statement of the parent company in 20___			
	Audited financial statement and accounting statement of the parent company in 20___		—	
	Audited financial statement and accounting statement of the parent company in 20___		—	
Y-7	Corporate credit rating report (if any)			
	Debt credit rating report			
	Follow-up rating arrangements			

No.	Document type	Options		Notes
		Registration	Filing	
Y-8	Credit enhancement letter (if any)			
	- Attached with the resolution of the competent authority and the relevant internal control system			
	Credit enhancement agreement (if any)			
	Latest issue of accounting report (if any) of the credit enhancement agency			
	Audited financial statement of the credit enhancement agency and accounting statement of the parent company (if any) in 20___			
	Audited financial statement of the credit enhancement agency and accounting statement of the parent company (if any) in 20___		—	
	Audited financial statement of the credit enhancement agency and accounting statement of the parent company (if any) in 20___		—	
	Corporate credit rating report and follow-up rating arrangements (if any) of the credit enhancement agency			
Y-9	Legal opinion			
Y-10	Annexes to the underwriting agreement		—	
Y-11	Agreement on the supervision of sinking fund special account (if any)			
Notes				
Signed and sealed by the related personnel of the lead underwriter		Signed and sealed by the lead underwriter		
Recipient of NAFMII		_____(MM/DD/YYYY)		

Notes:

1. For the filing items, only the most recent year of audited financial statement and the latest issue of financial statement of the company and the credit enhancement agency (if any) need to be submitted.
2. For the SCP items, where the enterprise has disclosed an effective corporate rating report, recent three years of audited financial statements and latest issue of accounting statement in the interbank bond market, it may choose not to submit them again.

iii. Information Disclosure Forms

1. Form M (prospectus disclosure form)
   Table of Contents

Name of form	Applicable scope	Options	Notes
M	Basic corporate information is disclosed.	☐	
M.1	Where the enterprise belongs to a high-risk industry or has a work safety accident as stated in the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents (Order No. 493 of the State Council) and the Notice of the State Council on further Strengthening the Work Safety Work of the Enterprises (GF [2010] No. 23) in recent three years and the latest issue, it shall further disclose information according to Form M.1. For the high-risk industries, see the regulations by the State Administration of Work Safety.	☐	
M.2	Where the enterprise's audit reports in recent three years have a non-standard unqualified opinion, it shall further disclose information according to Form M.2.	☐	
M.3	Where the enterprise is involved in related party transactions, it shall further disclose information according to Form M.3.	☐	
M.4	Where the enterprise is involved in restructuring of major assets, it shall further disclose information according to Form M.4.	☐	
M.5	Where the debt financing instrument is involved in credit enhancement, the enterprise shall further disclose information according to Form M.5.	☐	

No.	Elements of information	Page	Notes
M-0	**Title page and table of contents**	□	
M-0-1	The current debt financing instrument has been registered with NAFMII. Nevertheless, registration does not mean NAFMII makes any comment on the investment value of the current debt financing instrument or judge its investment risk in whatever form. Before buying the current debt financing instrument, the investor shall carefully read this prospectus and relevant information disclosure document, independently analyze the authenticity, accuracy, integrity and timeliness of the information disclosure, judge the investment value at its own discretion, and exclusively undertake any subsequent investment risk.		
	The board of directors (or entity assuming the same responsibility) has approved the prospectus, and all directors (or persons assuming the same responsibility) warrant that the prospectus contains no false information, misleading statement or material omission, and bear the joint and several legal liability for the authenticity, accuracy, integrity and timeliness of the prospectus.		
	The leader of the enterprise, the leader supervising the accounting work and the leader of the accounting department warrant the authenticity, accuracy, integrity and timeliness of the financial information contained in the prospectus.		
	Any person shall be considered as willing to accept the provisions of this prospectus regarding various rights and obligations by obtaining and holding the current debt financing instrument through subscription, acceptance of transfer and other legitimate means.		
	The issuer undertakes to perform its obligations in line with laws, regulations and the prospectus, and accept the supervision from investors.		
	The issuer involved in secrets shall present that "this Company warrants that all the information disclosed by this Company for the issuance of the debt financing instrument does not involve national secrets, and this Company shall exclusively undertake any consequence arising out of the public information disclosure." (if any)		
	The issuer has not incurred any other material events affecting solvency until the signing date of the prospectus, except for the disclosed information.		
M-0-2	The table of contents marks titles of relevant chapters and sections as well as corresponding pages.		
M-1	**Chapter 1 Terms and Definitions**		
M-1-1	Define name abbreviations and special terms that will possibly hinder investors' understanding and have special meanings.		
M-2	**Chapter 2 Risk Alert and Statement**		
M-2-1	Investment risks – interest rate risk, liquidity risk and solvency risk.		

No.	Elements of information	Page	Notes
M-2-2	Financial risk – Mainly refer to the risk arising out of financial factors such as unreasonable asset structure, liability structure and other financial structures of the issuer; poor liquidity of assets; excessive expansion of debt size; significant increase in capital expenditure in future; uncertain future return from the project; high proportion of restricted assets; high proportion of non-reoccurring profit and loss; big change in fair value of derivatives; high contingent liabilities; and significant change in material accounting subjects.		
	Operating risk – Mainly refer to the risk arising out of changes in the market prospect or operating environment relating to the product or service of the issuer; fluctuation of product supply and demand as well as raw material prices; intensification of competition in the industry; influence of the business cycle or product lifecycle; market saturation or market isolation; excessive dependence on single market; decline of market share; and changes in exchange rate and trade environment for the issuer with a large import and export business size.		
	Management risk – Mainly refer to the risk arising out of the instability of the management level, management system and management policy of the issuer as a result of unsound organizational structure and management system, competition and material related transactions with controlling shareholder and other important related parties, high guarantee amount, large number of subsidiaries, operation across industries, complex internal equity relations, possible change or asset restructuring at important shareholders after issuance and potential work safety accident faced by high-risk industries.		
	Policy risk – Mainly refer to concrete policy-related risk incurred by the issuer as a result of possible changes in laws, regulations and policies of the state, such as the impact on the issuer from changes in the fiscal policy, financial policy, land use policy, industrial policy, industry regulation policy, environmental protection policy, taxation system, business licensing system, foreign exchange system, charge system, international antidumping policy, anti-subsidy or special safeguard measures, and policy differences between countries.		
M-2-3	Specific risk – Other specific risks relating to the current debt financing instrument issue.		
M-3	**Chapter 3 Issuance Articles**		
M-3-1	Major issuance articles – Full name of debt financing instrument, full name of issuer, debt financing balance repayable of issuer, registration notice number, term, face value, issuing price or interest rate pricing method, target investor, underwriting mode, issuance method, issuance date, value date, redemption price, redemption method, redemption date, credit rating agency, credit rating result, redemption article or sellback article (if any), and credit enhancement.		
M-3-2	Issuance arrangement – Book building (tendering) arrangement, distribution arrangement, payment and settlement arrangement, registration and depository arrangement, listing arrangement and others.		

No.	Elements of information	Page	Notes
M-4	**Chapter 4 Use of Funds Raised**		
M-4-1	Purpose of funds raised – Disclose the name of the entity using the funds raised, amount and gap calculation; and if the funds raised are used for a project, it is required to disclose the project information, including basic content, investment amount, availability of proprietary capital and capital, construction plan, current status and approval of land, environmental protection and project initiation (approval documents serve as the reference);		
M-4-2	Warranty – Use the funds for production and operation activities of the issuer complying with the requirements of the laws, regulations and policies of the state, and disclose relevant information in a timely manner before changing the purpose of the funds raised during the duration of the debt financing instrument.		
M-5	**Chapter 5 Enterprise Overview**		
M-5-1	Overview – Registered name, legal representative, registered capital, date of establishment (company registration), company registration number, domicile, postal code, telephone number and fax number.		
M-5-2	Historical evolution – With the succession of major entities as the master line, disclose the establishment, historical evolution and reorganization of the enterprise as well as historical changes in the equity structure; disclose important events representing the progress of the enterprise in different historical periods, including shareholding reform, material capital increase or decrease, merger, separation, bankruptcy restructuring and name change.		
M-5-3	Controlling shareholder and actual controller – Overview and shareholding ratios. The actual controller shall be disclosed to the extent of the final state-owned controlling entity or natural person.		
	If the controlling shareholder or actual controller is a natural person – Disclose his name, brief background and pledge of shares in the issuer, and disclose major investments of the natural person in other enterprises and his relations with other majority shareholders.		
	If the controlling shareholder or actual controller is a legal person – Disclose the name, establishment date, registered principal, principal operation, asset size, revenue and profit of the legal person as well as changes and pledges of enterprise shares held by the legal person.		
M-5-4	Independence – Disclose mutual independence with the controlling shareholder in asset, personnel, organization, finance, business operation and other aspects.		

No.	Elements of information	Page	Notes
M-5-5	Important equity investments – Disclose shareholding ratios in consolidated subsidiaries, and disclose the reason for including subsidiaries with the shareholding ratios below 50% in the scope of consolidation or not including subsidiaries with the shareholding ratios above 50% in the scope of consolidation.		
	Subsidiaries having material influence on the enterprise – Disclose their basic information, principal operations and major financial data (including assets, liabilities, owners' equity, revenue and net profit) over the past year as well as changes in the aforesaid items and reasons.		
	Major companies with equity participation and related parties having important influence on the enterprise – Disclose enterprises with equity participation involving a high proportion in revenue and assets as well as other related parties having material influence on the enterprise in the same way as subsidiaries.		
M-5-6	Governance structure – Governance structure, organizational structure and operation, including major functional departments, businesses or business divisions and branches.		
	Internal control system – Disclose names and core contents of internal control system, including budget management, financial management, material investment/financing decision, guarantee policy, related transaction policy and internal control over assets, personnel and finance of subsidiaries.		
M-5-7	Basic personnel information of enterprise – Disclose staff status, disclose names, positions and terms of directors, supervisors and senior management members, and disclose resumes of senior executives. State whether or not senior executives are arranged in conformity with the Company Law, relevant laws, regulations and the articles of association.		
M-5-8	Business segment – Disclose operating revenue, operating cost, gross profit, gross profit margin and contribution of specific business segment over the past three years and the most recent period.		
	For principal operation contributing over 10% of the revenue from principal operation or contributing over 10% of the gross profit in the most recent year or period, disclose its profiting mode, upstream and downstream industrial chain, production and sales regions, key technical process and industrial position in the past three years and the most recent period. Disclose key indicators that can prove its position and operating advantages in the industry, and state relevant data sources.		
M-5-9	Construction in progress – Take the form of list to disclose names, investment amounts, completed amounts and compliance of major constructions in progress. For the construction in progress delivering a material influence on the production and operation of the enterprise, disclose its basic content, investment amount, construction plan, current status and availability of proprietary fund and capital.		
	Proposed construction – Name, investment amount, investment plan and investment progress of the investment project to be built in future.		
M-5-10	Development strategy – Disclose the development strategy planning in the following 3-5 years.		

No.	Elements of information	Page	Notes
M-5-11	Industry status – For the principal operation contributing over 10% of the revenue from principal operation or contributing over 10% of the gross profit in the most recent year or period, disclose its industry status, industry prospect, industry policy and competitive landscape.		
M-6	**Chapter 6 Major Financial Standings of Enterprise**		
M-6-1	Disclose the audited financial reports over the past three years and the accounting statements for the most recent period as to accounting basis, material accounting policy change, audit status and change in scope of statement consolidation. Disclose the reason for the change in the accounting firm or the scope of statement consolidation, if any.		
	Take the form of list to disclose the balance sheet, income statement and cash flow statement over the past three years and the most recent period, and specify data sources. If the enterprise prepares the consolidated financial statements, the enterprise shall simultaneously disclose the consolidated financial statements and the financial statements of the parent.		
M-6-2	Analysis of material accounting subjects – Disclose the asset-liability structure statement over the past three years and the most recent period. Analyze the change and reason for the change relating to the asset subject contributing over 10% of total assets, or the liability subject contributing over 10% of total liabilities or the accounting subject suffering a change above 30% over the past year and the most recent period.		
	Analysis of important financial indicators – Solvency, profitability, operating efficiency and other financial indicators as well as the reason for their changes, if any, over the past three years and the most recent period.		
M-6-3	Interest-bearing liabilities – Balance, term structure and guarantee structure of interest-bearing liabilities at the end of the most recent year as well as value date, maturity date and financing interest rate of major liability. Issuance of direct debt financing securities during duration (including issuances of the issuer and other consolidated enterprises of group parent).		
M-6-4	Related transaction – If the issuer is involved in related transactions, please refer to Schedule M.3.		
M-6-5	Contingencies – Disclose external guarantees, pending litigations (arbitrations), material commitments and other contingencies in the most recent period.		
M-6-6	Restricted assets – Disclose the mortgage, pledge, lien and other purpose restrictions over assets in the most recent period as well as other priority of debt repayment that can challenge third persons. The disclosure contents include but are not limited to asset names, mortgagee/pledgee, book-entry value of asset and term.		
M-6-7	Derivatives – Disclose names, trading purpose, trading structure, nominal principle and profit/loss of the derivatives held in the most recent period.		
M-6-8	Material investment and wealth management products – Disclose names, trading purpose, trading structure, nominal principle and profit/loss of the material investment and wealth management products held in the most recent period.		
M-6-9	Overseas investment – Disclose the content, amount, plan, current status and relevant operating data of the overseas investment in the most recent period.		
M-6-10	Direct debt financing plan – Disclose the amount, progress and issuance plan relating to the direct debt financing plan.		

No.	Elements of information	Page	Notes
M-7	**Chapter 7 Credit Standing of Enterprise**		
M-7-1	Rating – Disclose the historical entity rating, rating agency and rating conclusion of debt financing in the past three years as well as meanings of rating symbols.		
M-7-2	Credit facility – Line of credit, used line of credit and unused line of credit granted by major loan banks.		
M-7-3	Default record – Amount, time, reason and resolution progress of debt default over the past three years and the most recent period.		
M-7-4	Historical issuance and repayment of direct debt financing instruments.		
M-8	**Chapter 8 Credit Enhancement of Debt Financing Instrument**		
M-8-1	Please refer to Schedule M5 if the debt financing instrument contains credit enhancement.		
M-9	**Chapter 9 Taxes**		
M-9-1	Taxes payable on the investment in debt financing instrument – Taxes, tax basis and payment mode.		
M-9-2	Presentation – The listed tax items do not constitute tax advice or tax basis for investors.		
M-10	**Chapter 10 Information Disclosure Arrangement**		
M-10-1	Information disclosure arrangement – Basis of information disclosure, disclosure time, disclosure content, material event information disclosure, regular information disclosure during duration, principal repayment and interest payment. The disclosure time shall be no later than the time of public disclosure through the stock exchange, designated media or other occasions.		
M-11	**Chapter 11 Investor Protection Mechanism**		
M-11-1	Default event		
M-11-2	Liability for breach		
M-11-3	Investor protection mechanism		
M-11-4	Force majeure		
M-11-5	Abstention		
M-12	**Chapter 12 Issuance-related Institutions**		

No.	Elements of information	Page	Notes
M-12-1	Disclose names, domiciles, legal representatives, telephone numbers and fax numbers of the following institutions as well as names of relevant handling persons:		
	--- Enterprise		
	--- Lead underwriter and other underwriting institutions		
	--- Law firm (if any)		
	--- Accounting firm (accounting firm issuing the audit reports for the past three years)		
	--- Credit rating agency (if any)		
	--- Credit enhancement institution (if any)		
	--- Registration, depository and clearing agency		
	--- Other institutions relating to issuance		
	Relations between enterprise and related institutions – Disclose direct or indirect equity relations and other material interest relations between the enterprise and relevant intermediaries as well as their principals, senior executives and handling persons, and if no such relations, the enterprise shall disclose relevant statement.		
M-13	**Chapter 13 Reference Documents**		
M-13-1	Reference documents – Registration notice, public disclosure document and relevant approval document on the project funded with the funds raised.		
M-13-2	Inquiry address – Enterprise and lead underwriter.		
M-13-3	Website – Websites recognized by NAFMII.		
Remarks			

Main Text
Schedule M.1 (information disclosure schedule involving work safety)

No.	Elements of information	Page	Notes
M.1-1	**Chapter 2 Risk Alert and Statement**		
	In M-2-2, the issuer shall disclose potential risks relating to work safety, and disclose the information on material work safety accidents that have happened.		
M.1-2	**Chapter 5 Enterprise Overview**		
	In M-5-6, the disclosure shall disclose the internal control system and relevant emergency response plan relating to work safety.		
	In M-5-8, the issuer shall disclose concrete measures relating to work safety management and their implementation.		
	In M-5-8, the issuer shall disclose work safety inspection records over the past three years and the most recent period, and if the issuer has incurred a work safety accident, the issuer shall disclose basic information of the accident, determination of relevant state authority for accident reason and nature, relevant remediation requirement for the issuer and subsequent inspection and acceptance.		
Remarks			

Schedule M.2 (information disclosure schedule involving audit report bearing the unmodified unqualified opinion)

No.	Elements of information	Page	Notes
M.2-1	**Title page**		
	In M-0-1, the issuer shall present that "XXX Accounting Firm has issued an audit report with the XXX (audit report type) on the financial report of the Enterprise for XXXX, and we are hereby reminding the investors to carefully read through the audit report and relevant annotations on financial statements. This Enterprise has stated relevant affairs in detail. Please read carefully."		
M.2-2	**Chapter 6 Major Financial Standings of Enterprise**		
	In M-6-1, the issuer shall remind the audit report type is one with the unmodified unqualified opinion, and disclose the extent of impact on the company, concrete measures to eliminate the event and its impact, current implementation status and subsequent measures.		
M.2-3	**Chapter 14 Appendixes**		
	The accounting firm and the issuer shall provide special statement on the event involved in the audit report with the unmodified unqualified opinion respectively. The contents include but are not limited to the basis of the opinion and the extent of impact on the issuer.		
Remarks			

Schedule M.3 (information disclosure schedule involving related transaction)

No.	Elements of information	Page	Notes
M.3-1	**Chapter 2 Risk Alert and Statement**		
	Disclose related transaction risk in M-2-2.		
M.3-2	**Chapter 5 Enterprise Overview**		
	In M-5-6, the issuer shall disclose the contents of the related transaction policy, including without limitation to pricing principle, decision-making procedure and decision-making mechanism.		
M.3-3	**Chapter 6 Major Financial Standings of Enterprise**		
	In M-6-2, the issuer shall further disclose the contents and changes of accounts payable, accounts receivable, other payables, other receivables, cash flow and other subjects relating to operating activities.		
	In M-6-4, the issuer shall disclose related transactions as to overview, reason, pricing basis, settlement mode, impact and fund occupation over the past year.		
Remarks			

Schedule M.4 (information disclosure schedule involving material asset restructuring)

No.	Elements of information	Page	Notes
M.4-1	**Chapter 2 Risk Alert and Statement**		
	In M-2-2, the issuer shall disclose potential risk arising out of the material asset restructuring.		

No.	Elements of information	Page	Notes
M.4-2	**Chapter 5 Enterprise Overview**		
	In M-5-2, the issuer shall disclose the asset restructuring plan, current stage, completed legal procedure, compliance of restructuring process and influence on the qualification as the debt financing instrument issuer and validity of its resolutions.		
M.4-3	**Chapter 6 Major Financial Standings of Enterprise**		
	In M-6-1, the issuer shall disclose comparable financial data over the past three years and the most recent period.		
	In M-6-2, the issuer shall analyze the influence of the restructuring on its production, operation and solvency.		
Remarks			

Schedule M.5 (information disclosure schedule involving credit enhancement)

No.	Elements of information	Page	Notes
M.5-1	**Chapter 2 Risk Alert and Statement**		
	In M-2-3, the issuer shall disclose the specific risk relating to the credit enhancement of the current debt financing instrument.		
M.5-2	**Chapter 8 Credit Enhancement of Debt Financing Instrument**		
	In M-8-1, the issuer shall disclose relevant institution information – If the credit enhancement is provided by a professional credit enhancement institution, the issuer shall disclose the information in line with the Self-regulatory Management Rules of China Interbank Market Concerning Credit Enhancement Business, and if the credit enhancement is provided by other enterprises, the issuer shall disclose the information on these enterprises in the same way as the issuer.		
	In M-8-1, the issuer shall disclose the contents of the L/G or the guarantee agreement, including guarantee amount, guarantee term, guarantee method, guarantee scope; rights and obligations of the enterprise, guarantors and holders of the debt financing instrument; and other matters that all parties consider shall be agreed upon.		
	In M-8-1, the issuer shall disclose the name of the collateral, the amount of the collateral (book-entry value and appraised value) and the ratio of the amount to the total face value and total principal and interest of the issued debt financing instrument as well as the completion of the collateral appraisal, registration, preservation and relevant legal procedures. (if any)		
	In M-8-1, the issuer shall disclose the continuous disclosure arrangement in case of material changes, if any, in the credit standing of the guarantor or collateral.		
M.5-3	**Chapter 13 Reference Documents**		
	In M-13-1, the issuer shall disclose relevant certificate documents (if any) as reference documents – If the mortgage/pledge guarantee is adopted, the issuer shall provide the proprietorship certificate of the mortgaged/pledged property, asset appraisal report and documents relating to the registration, preservation and continuous monitoring arrangement for the mortgage/pledge.		
Remarks			

II. Private Placement Form System

i. Direction for Use

1. Registration Document Form System for Private Placement of Debt Financing Instruments
   The Registration Document Form System for Private Placement of Debt Financing Instruments (hereinafter referred to as the "Form System") contains the list of registration documents and information element forms. The details are as follows:

   1) The list of registration documents lists the written materials that shall be submitted to National Association of Financial Market Institutional Investors (NAFMII) for the registration for and private placement of debt financing instruments.

   2) The contents of the information element form is the minimum requirements of information elements of the registration document, including Form DX (private placement agreement form), DX.Z (private placement agreement element form relating to credit enhancement), DQ (confirmation letter from the investor of private placement note), and Form DF (legal opinion on the private placement note).

   3) Form DX in Annex 5 shall be filled in and stamped by the issuer as a confirmation at the current issuance and be reported to the NAFMII for filing after the issuance. The attorney shall give a legal opinion on the contents of Form DX in Annex 5, which shall be reported to NAFMII together with Annex 5 for filing after the issuance.

2. The enterprises, the intermediaries providing professional services, and the related personnel shall prepare the registration documents in an order and give professional opinions in accordance with the relevant laws and regulations, normative documents and rules of self-regulation and shall bear legal liability for the registration documents and opinions that they issue.

   1) The accounting firm shall audit the enterprise and issue an audit report in accordance with the relevant provisions.

   2) The accounting firm shall give a definite opinion on the relevant matter in the legal opinion on the basis of adequate due diligence.

   3) The lead underwriter shall fill in the list of registration documents and information element forms in accordance with the requirements of this Notice.

   4) The lead underwriter shall fill in the forms according to the following requirements:

      a) List of registration documents: The name of issuer and variety shall be filled in on the top of the form of list of registration documents. Where the documents corresponding to "Document type" are all available, tick (√) the corresponding places below the "Options" item.

      b. Page: The specific page range of the disclosed part in the document shall be filled in below the "Page" item.

      c. Notes: For the inapplicable information elements or matters that shall be specially explained, describe in the appropriate place below the "Notes" item.

      d. Signed and sealed by the related personnel of the lead underwriter: After confirming that the list of registration documents and information element forms are completely filled in and all relevant documents are available, the leader of the related department, team leader and related personnel of the lead underwriter shall separately sign or seal the item of "Signed and sealed by the related personnel of the lead underwriter."

      e. Signed and sealed by the lead underwriter: The item "Signed and sealed by the lead underwriter" in the list of registration documents shall be stamped with the official seal of the relevant business department of the lead underwriter. The list of registration documents and information element forms shall be stamped with the official seal (cross-page seal) of the relevant business department of the lead underwriter.

ii. List of Registration Documents

(Documents for the Registration of _____of_____ Company)

No.	Document type	Options	Notes
DY-1	Registration statement	☐	
	- Attached with the business license	☐	
	- Attached with the Articles of Association and the consistent resolution of the competent authority	☐	
	- Attached with the decryption instruction (if any) of the related enterprise	☐	
DY-2	Recommendation letter	☐	
DY-3	Private placement agreement	☐	
	- Attached with the investment risk warning	☐	
	- Attached with the basic situation of the issuer	☐	
	- Attached with the list of investors and their basic information	☐	
	- Attached with the basic situation of the credit enhancement agency (if any)	☐	
	- Terms and conditions of private placement of debt financing instruments	☐	
DY-4	Confirmation letter from the investor of private placement note	☐	
DY-5	The most recent year of audited financial statement and the accounting statement of the parent company (if any)	☐	
DY-6	Credit enhancement letter (if any)	☐	
	- Attached with the resolution of the competent authority and the relevant internal control system (if any)	☐	
	- The most recent year of audited financial statement of the credit enhancement agency and the accounting statement of the parent company (if any)	☐	
DY-7	Legal opinion	☐	
DY-8	Underwriting agreement	☐	
DY-9	Others (if any)	☐	
Notes			
Signed and sealed by the related personnel of the lead underwriter	**Signed and sealed by the lead underwriter**		
Recipient of NAFMII	**_____(MM/DD/YYYY)**		

Notes:

1. The registration statement shall be filled in according to the client "Filling Instructions"; the basic information filled in shall be consistent with the private placement agreement.
2. The reference for rules in the recommended letter shall be accurate and the use of the capital raised shall be declared legal and compliant; the information in the recommended letter shall be consistent with that in the registration statement, private placement agreement and the like.
3. The audit report shall contain the signature and seal of the accounting firm and at least two certified public accountants; the financial statement shall be stamped with the official seal of the company and be signed or stamped by the legal representative, the company's leader responsible for the accounting work, and the leader of the company's accounting department (accounting manager); the issuer and the accounting firm shall issue a special instruction for the non-standard audit report.
4. Where the Private Placement Agreement (for reference) is used, please describe in the Notes.

iii. Information Element Forms

1. Form DX (private placement agreement element form)

No.	Elements of information	Page	Notes
DX-0	Contents and title page		
DX-0-1	The titles of the chapters and sections and the corresponding page numbers are indicated in the contents.		
DX-0-2	The date and manner of signing of the agreement and contact information.		
DX-0-3	The issuer is a non-financial corporate entity duly incorporated and validly existing under the laws and plans to issue a debt financing instrument in the manner of private placement.		
	The issuer has hired_____ as the lead underwriter, _____ as the joint lead underwriter (if any), and _____ as the book-running manager (if any).		
	The investor has the strength and willingness of investment in private placement note, fully understands the nature of the debt financing instrument issued by the issuer and the risks relating to the subscription or transfer, and is willing to accept the self-disciplinary management by NAFMII.		
	After friendly consultations, the parties to this Agreement reached the following agreement on the relevant matters regarding the issuance and purchase of private placement note in the principles of honesty, trustworthiness, equality, mutual benefit, and real intention.		
DX-1	**Article 1 Issuance and Purchase of Private Placement Note**		
DX-1-1	The registered amount is specified.		
DX-1-2	The issuer will determine the name of private placement note, amount, duration, price, or the manner to determine interest rate and other terms and conditions before each issuance and notify the private investor.		
DX-1-3	The investor is willing to participate in the issuer's any issuance of private placement note within the aforementioned registered amount and is entitled to decide whether to submit an application for subscription based on the terms and conditions of the current private placement note.		
DX-2	**Article 2 Use of the Capital Raised**		
DX-2-1	Pledge - The issuer pledges that the use of the capital raised by private placement note is compliant with national laws, regulations and policies, as well as the use agreed on. The issuer will disclose the specific use of the capital raised to the private investor before the issuance.		
DX-2-2	Where the use of the capital raised is changed over the duration of current private placement note, the post-change use of the capital raised shall be consistent with national laws, regulations and policies, and the issuer shall obtain the consent of the investor before the change of use of the capital raised. The procedure that shall be performed for the change of use of the capital raised shall be agreed on.		
DX-2-3	The use of the capital raised might be re-disclosed at the current issuance in Annex 5.		
DX-3	**Article 3 Information Disclosure**		
DX-3-1	Manner of information disclosure - the manner agreed on.		

No.	Elements of information	Page	Notes
DX-3-2	Disclosure of issuance progress - The issuer shall disclose the amount, duration, interest rate and other related information of the current private placement note to the investor on the next working day after the registration of credit and debt of private placement note.		
DX-3-3	Regular information disclosure over the duration - The regular disclosure of financial statement and others of the issuer is agreed on over the duration of the current private placement note.		
DX-3-4	Disclosure of major events - The standard of a major event, manner of disclosure, disclosure time and others are agreed on.		
DX-3-5	Disclosure of interest payment - The issuer shall disclose the payment of principal and interest of private placement note five working days ahead.		
X-4	**Article 4 Protection of Investor**		
DX-4-1	Definition of default. In case that the event occurs as agreed over the duration of private placement note, the investor is entitled to convene meetings of private placement note holders or take other measures as agreed. The convening, holding, voting procedure and resolution of the holder meetings can be carried out according to the relevant provisions on self-disciplinary management of NAFMII.		
DX-4-2	The disputes over the validity and implementation of the resolution of the holder meeting or the protective measures agreed on shall be resolved according to the agreement.		
DX-4-3	The default coping mechanism shall be established. For instance, the lead underwriter represents the investor to take judicial proceedings relating to breach of contract.		
DX-5	**Article 5 Rights and Obligations of the Issuer**		
DX-5-1	Rights - The issuer has the right to use the capital raised by private placement note as agreed according to law.		
DX-5-2	Obligations - The issuer shall manage and use the capital raised in the principles of honesty, faith and diligence as provided in this Agreement. Where the issuer intends to change the use of the capital raised, it shall fulfill the necessary procedure as provided in this Agreement.		
	The issuer shall repay the principal and interest to the investor holding the private placement note as agreed and fulfill other obligations under this Agreement.		
	The issuer shall accept the supervision by the investor and provide compensations as agreed in the event of breach provided in this Agreement.		
	The issuer shall fulfill the obligation of true, accurate, complete, timely and fair disclosure of information in accordance with the self-regulation rules of NAFMII and this Agreement. Any false records, misleading statements or material omissions are not allowed.		
DX-6	**Article 6 Rights and Obligations of the Investor**		
DX-6-1	Rights - The investor has the right to decide whether to transfer the private placement note it subscribes; it may exert its right over the private placement note in a timely manner in accordance with the laws and regulations or this Agreement, when it finds any matters detrimental to the interests of the issuer.		
DX-6-2	Obligations - The investor has the qualification to subscribe for the private placement note.		

No.	Elements of information	Page	Notes
	The investor has obtained all the authorization and approval of participation in the issuance of the private placement note.		
	The investor unconditionally agrees the issuer to arrange other agencies in line with the qualifications for private investor to sign this Agreement after the signing of this Agreement and grant them the right to subscribe for the private placement note.		
	NAFMII's self-management of the private investor.		
	Where the address, fax number and other information have changed, the investor shall promptly notify the issuer and the lead underwriter.		
DX-7	**Article 7 Confidentiality Obligations**		
DX-7-1	The confidentiality obligations of the issuer and the investor, confidentiality clauses and applicable conditions are agreed on.		
DX-8	**Article 8 Modification**		
DX-8-1	Where the parties to the agreement reach a consensus, the agreement can be effectively modified. The procedure for the modification of the agreement is agreed on.		
DX-9	**Article 9 Termination of Issuance of Private Placement Note**		
DX-9-1	The conditions of termination of issuance and the rights of the related parties are agreed on.		
DX-10	**Article 10 Credit Enhancement Arrangements (if any)**		
DX-11	**Article 11 Settlement of Disputes**		
DX-11-1	This Agreement shall be governed by and construed in accordance with the laws (excluding conflict of laws) of the People's Republic of China (excluding Hong Kong SAR, Macao SAR and Taiwan for the purposes of this Agreement).		
DX-11-2	The resolution of disputes is agreed on.		
DX-11-3	The settlement of the dispute over any provision under this Agreement shall in no way affect the validity and enforceability of any other provision hereof.		
DX-12	**Article 12 Commencement and Termination of the Agreement**		
DX-12-1	All the parties have taken all necessary internal actions to obtain authority to enter into and perform this Agreement. The representatives who sign this Agreement have been duly authorized to sign this Agreement. And all the parties are bound by this Agreement. This Agreement shall be signed by the legal representative or authorized agent and be stamped with the official seal or contract seal of each party.		
	The private placement note under this Agreement has been registered with NAFMII.		
DX-12-2	For the expiration date of this Agreement, the termination of all the rights and obligations of the parties under this Agreement shall prevail.		
DX-12-3	For any matters not contained in this Agreement, a supplementary agreement in writing shall be separately entered into. Where the supplementary agreement is inconsistent with this Agreement, the supplementary agreement shall prevail.		
DX-12-4	The annexes to this Agreement constitute an integral part of this Agreement.		
DX-12-5	The number of copies of this Agreement is agreed on.		

No.	Elements of information	Page	Notes
DX-Annex 1	**Annex 1: Investment Risk Warning**		
DX-Annex 1.1	The risks relating to the issuance of private placement note and the risks relating to the issuer.		
DX-Annex 2	**Annex 2: Basic Situation of the Issuer**		
DX-Annex 2.1	The basic situation of the issuer, the compliance with relevant national laws, regulations and policies, the rating agreement (whether to carry out rating and make rating arrangements shall be determined after consultations), the direct debt financing and financing plan of the issuer, and other matters that the issuer shall specify.		
DX-Annex 3	**Annex 3: List of Private Investors and their Basic Situation**		
DX-Annex 3.1	Company name, legal representative (or legally authorized representative), address, telephone number, fax phone, contacts, e-mail, and postal code.		
DX-Annex 4	**Annex 4: Basic Situation of the Credit Enhancement Agency (if any)**		
DX-Annex 4.1	The basic situation of the credit enhancement agency and other matters that shall be specified.		
DX-Annex 5	**Annex 5: Terms and Conditions of Private Placement of Debt Financing Instruments**		
DX-Annex 5.1	The current private placement note is a real-name book-entry bond. Its custody, payment and transaction shall be carried out in accordance with the self-regulation rules of NAFMII and the relevant regulations of Shanghai Clearing House and the CFETS. The transaction, circulation and other disposal manners of the current private placement note are only limited to the private investors. The private placement note cannot be sold to other institutions or individuals. The lead underwriter shall be responsible for the organization and coordination for the issuance of the current private placement note.		
DX-Annex 5.2	The name of issuer, name of private placement note, registered amount, registration notice number, amount of the current private placement note, duration, face value, issue price or manner to determine the interest rate, issue object and scope of circulation, underwriting manner, issuance manner, payment price, payment manner, credit rating and follow-up rating arrangements (if any), credit enhancement of the current private placement note (if any), issue arrangements, and others.		
DX-Annex 5.3	The use of the capital raised. The use of the capital raised is compliant with national laws, regulations and policies.		
DX-Annex 5.4	The signature and seal of the issuer and the date.		

2. Form DX.Z (private placement agreement element form relating to credit enhancement)

No.	Elements of information	Page	Notes
DX.Z-1	Article 10 Credit Enhancement Arrangements		
	The content of the letter of credit enhancement is disclosed in DX-10.		
DX.Z-2	Annex 1 Risk Warning and Notes		
	Special risks, i.e. the special risks relating to the credit enhancement of the current private placement note, are disclosed in DX- Annex 1.		
DX.Z-3	Annex 4 Basic Situation of the Credit Enhancement Agency		
	The situation and its information disclosure arrangements of the credit enhancement agency are disclosed in DX- Annex 4. Where the credit enhancement is provided by a professional credit enhancement institution, the information shall be disclosed in accordance with the Rules on Self-disciplinary Management of Credit Enhancement Business in China's Interbank Market. Where the credit enhancement is provided by other enterprises, the information shall be disclosed based on the situation of the issuer.		
DX.Z-4	Regional Optimized Financing Mode (if any)		
	Article 5 Rights and Obligations of the Issuer		
	The obligation of repaying the principal and interest that any joint issuer shall bear within its issue amount is disclosed in DX-5. The joint issuer's participation in the issuance of the current regional optimized collective note does not constitute the fulfillment, pledge or guarantee of the obligation of repaying the principal and interest of other issuers.		
	Article 10 Credit Enhancement of Private Placement Note		
	The basic situation of regional optimized financing mode is disclosed in DX-10.		
Notes			

3. Form DQ (Confirmation letter from the private placement note investor)

Confirmation Letter from the Private Placement Note Investor

(Sample)

National Association of Financial Market Institutional Investors:

We hereby confirm the following matters:

I. We are willing to invest in the _____ (full name of the current private placement note) that _____ (name of the issuer) plans to issue.

II. We understand the risks of investment in the private placement note and are able and willing to bear the risks of investment in the private placement note.

III. We are willing to accept the self-disciplinary management by NAFMII and fulfill the obligations of membership.

_____ (Name of investor)

Signed and sealed by:

_____ (MM/DD/YYYY)

4. Form DF (legal opinion information element form)

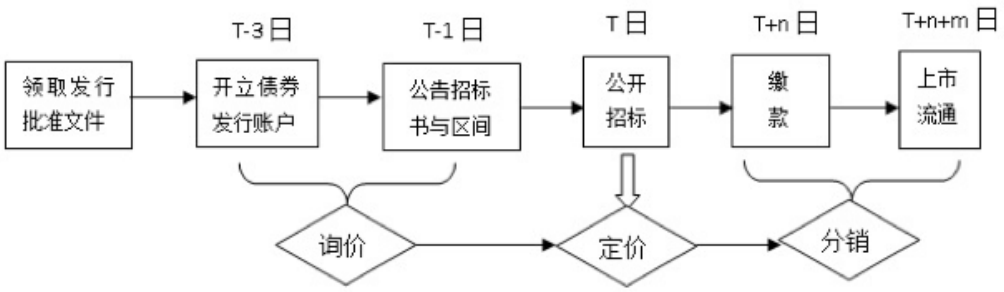
No.	Elements of information	Page	Notes
DF-0	**Matters that shall be declared**		
DF-0-1	The legal opinion is given according to the Company Law of the People's Republic of China, Administrative Measures for Debt Financing Instruments of Non-Financial Enterprises in the Inter-bank Bond Market (Order No.1 [2008] of the People's Bank of China), other laws, regulations and norms, the rules and guidelines of NAFMII, the business standards, ethics and the spirit of diligence generally accepted in the attorney industry.		
DF-0-2	Pledge that the legal opinion is given in accordance with the fact that has occurred or existed before the issuance of the legal opinion, China's existing laws, regulations, rules and guidelines, that the statutory duties have already been strictly performed, that adequate due diligence regarding the legal compliance of the registration and issuance of private placement note has been conducted, and that the legal opinion is ensured not to have false records, misleading statements or material omissions.		
DF-0-3	Agree to deem the legal opinion as a necessary legal document for the registration of private placement note, submit the legal opinion along with other materials, and bear the corresponding legal responsibility.		
DF-0-4	Other appropriate statements can be made, but the disclaimer in violation of the business standards, ethics and the spirit of diligence generally accepted in the attorney industry shall not be made.		
DF-1	**I. Issuer**		
DF-1-1	Does the issuer have legal status?		
DF-1-2	Is the issuer a non-financial enterprise?		
DF-1-3	Is the issuer a member of NAFMII?		
DF-1-4	Is the evolution of the issuer legal and compliant?		
DF-1-5	Is the issuer duly incorporated and in valid existence? Namely, is there any situation indicating the issuer should be terminated, according to the laws, regulations, normative documents and articles of association?		
DF-2	**II. Procedures for the Issuance**		
DF-2-1	Internal resolution - Has the competent authorities made a decision to issue the debt financing instrument according to a legal procedure? Are the decision content and procedure legal and compliant? Where the decision-making authorities is authorized to acquire the decision-making power, the attorney shall confirm whether the scope of authorization and procedure are legal and compliant.		
DF-3	**III. Documents and Relevant Agencies relating to the Issuance**		
DF-3-1	Private placement agreement: Is the private placement agreement legal and valid?		
DF-3-2	Legal opinion - Do the law firm and attorneys that issue the legal opinion have the relevant qualifications? Do they have any associations with the issuer?		
DF-3-3	Audit report - Do the accounting firm that issues the audit report and the certified public accountants have the relevant qualifications? Do they have any associations with the issuer?		
DF-3-4	Does the lead underwriter have the relevant qualifications? Does it have any associations with the issuer?		

No.	Elements of information	Page	Notes
DF-3-5	Rating report (if any) - Does the rating agency have the relevant qualifications? Does it have any associations with the issuer?		
DF-4	**IV. Significant Legal Issues and Potential Legal Risks relating to the Current Issuance**		
DF-4-1	Business operations - Are the business scope and business legal, compliant and in line with national policies? Was the issuer seriously punished due to work safety, environmental protection, product quality, tax and others in the last three years? Is the financing restricted due to the above business operations and other reasons? The verification of subject scope covers the issuer and its subsidiaries within the scope of merger.		
DF-4-2	Credit enhancement conditions (if any) - Are the qualification of the credit enhancement agency and the credit enhancement resolution legal and valid? Is the credit enhancement agreement or letter of credit enhancement is legal and valid? Did the debt financing instrument thereby obtain legitimate credit enhancement?		
DF-4-3	Other issues that shall be specified - Even if this form fails to make an explicit requirement, the attorney shall give a legal opinion on the significant legal issues and potential legal risks relating to the registration and issuance. Where the legal validity of the registration document might be affected due to inconsistent name, delayed signing time and others, the attorney shall give a legal opinion on the cause and the compliance of the document.		
DF-5	**V. General Concluding Observations**		
DF-5-1	The attorney shall make general concluding observations about whether the issuer's registration and issuance of private placement note are legal, compliant, and in line with the rules and guidelines and whether there are potential legal risks.		
DF-6	The Observations shall be signed and sealed by at least two attorneys and be stamped with the official seal of the law firm. The signature shall be dated.		
Notes			

3. Book building

1.1 Flowchart of issuance

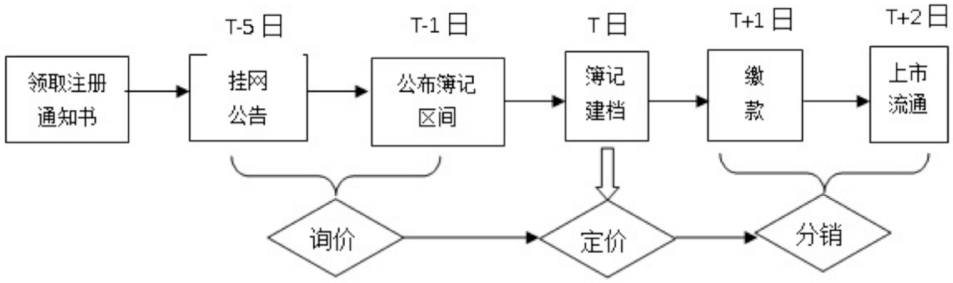
1.1.1 Flowchart of issuance by tender



	T-3	T-1	T	T+n	T+n+m
Receiving issuance approval documents	Opening bond issuance account	Publishing invitation for bid and price range	Open tendering	Payment	Open market trading

Inquiry Pricing Distribution

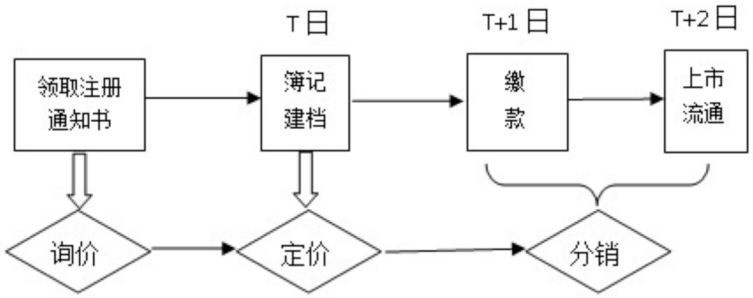
1.1.2 Flowchart of issuance by book building



	T-5	T-1	T	T+1	T+2
Receiving registration notice	Online announcement	Publishing booking range	Book building	Payment	Open market trading

Inquiry Pricing Distribution

1.1.3 Flowchart of issuance by private placement



	T	T+1	T+2
Receiving registration notice	Book building	Payment	Open market trading

Inquiry Pricing Distribution

1.2 Procedures of issuance by tender

1.2.1 Signing service agreement

The issuer shall sign a written agreement with every bidder to standardize and clarify each party's rights and obligations.

1.2.2 Submitting issuance materials

The issuer applies to PBC's Financial Market Department for issuance by tender and submits the following materials: document issued by competent authorities that approves the issuance of current bond, issuing method and invitation for bid of current bond, list of bidders and their written agreement with the issuer, catalogue of files to be disclosed.

1.2.3 Material review and feedback

The Financial Market Department will review the issuer's application for issuance by tender. If the issuer meets relevant conditions, Financial Market Department shall notify within two workdays China Government Securities Depository Trust & Clearing Co. Ltd. (CDC) to prepare for the issuance of the current bonds. CDB shall make overall arrangements for the bond issuance of all types of issuers and notify them in a timely manner.

1.2.4 Disclosure of tendering information

In addition to fulfilling the obligation of information disclosure to investors according to relevant rules, the issuer, before the issuance by tender, shall disclose the following information on www.chinabond.com.cn at least one workday in advance: issuing method and invitation for bid of current bond and list of bidders.

1.2.5 Publishing tendering results

After the issuance is completed, the issuer shall publish the tendering results of all current bonds on www.chinabond.com.cn within one workday, including actual amount of bids, number of bidders, number of bid winners and winning rate. CDB shall submit the bidding/tendering status of all current bonds to PBC's Financial Market Department after bidding is completed, including tendering results and details of bidders and winning bidders.

1.3 Procedures of issuance by book building

1.3.1 Signing service agreement and opening escrow account

If the issuer entrusts Shanghai Clearing House to provide relevant services for the first time, it shall first open a bond issuance account at Shanghai Clearing House.

1.3.2 Arranging issue time

The issuer can issue debt financing instruments in instalments within the registration term. The first issue shall be completed within two months after registration, the failure of which shall be put on record with NAFMII. The issuer shall choose the best issue time within the specified period and based on overall considerations for its own financing needs, situation of the bond market and other factors. Issuing documents of the first issue of debt financing instruments shall be published at least five workdays prior to the issue date, and issuing documents of subsequent issues shall be published at least three workdays prior to the issue date. For issuance by book building, the issuing scheme shall be finalized and submitted for record at least three workdays prior to the issue announcement date. After the announcement period, members of the underwriting syndicate will need one to two workdays to distribute the bonds. Therefore, when determining the best issue time, issuers usually need to leave six to seven workdays for announcement and distribution for the first issue, and four to five workdays for subsequent issues.

1.3.3 Submitting issuing scheme for filing

The issuer and lead underwriter shall formulate the Issuing Scheme and submit it to NAFMII for filing at least three workdays before publishing the issuing documents. The Issuing Scheme shall be disclosed to the market as part of the issuing documents.

1.3.4 Disclosing issuing documents

Enterprises shall publish the current issuing document on the designated information disclosure platform of the

interbank market. In addition to disclosing information in the interbank bond market according to NAFMII's *Rules for Information Disclosure on Debt Financing Instruments of Non-financial Enterprises in the Interbank Bond Market*, enterprises that issue medium term notes shall also make one-off disclosure of the complete issuing plan on the announcement date of the first issue on the interbank bond market.

1.3.5 Inquiry and book building

(1) Determining rate range
After the issuing materials are published, the issuer and lead underwriter shall determine the issuing rate range according to the issuer's qualifications and in reference to market rate and inquiry, and sign the letter of confirmation of book building rate (price) range.

(2) Publishing and sending purchase offer
A day before issuance, the lead underwriter shall send the purchase specifications to members of the underwriting syndicate and publish the purchase specifications to the market. Purchase specifications include the following main contents: important notice of purchasing current bonds, main terms of current bonds, purchase rate range of current bonds, purchase time and procedures, placement and payment of current bonds, contact information of bookrunner, designated account of payment, etc.

1.3.6 Placement and payment

For issuance by book building, subscribers shall submit the stamped written purchase offer to the bookrunner at the specified time. Underwriting commitment of any form, if not made at the specified time, shall be deemed invalid. Bookrunner shall send "demand note" to underwriters that have obtained placement at the agreed time on the issue date to notify them of the amount of placement of current debt financing instruments and the issuing rate determined by book building.

1.3.7 Distribution and open market trading

Bookrunner shall set a distribution period according to the distribution needs of debt financing instruments and arrange members of the underwriting syndicate to carry out agreed distribution. The distribution period lasts from the date of book building to the last day of payment. All placements from members of the underwriting syndicate to institutions not in the underwriting syndicate shall be completed within this period in the form of agreed distribution. The bonds are tradable on the interbank market from the next workday of payment.

1.4 Procedures of issuance by private placement

1.4.1 Signing agreement of private placement and investor confirmation letter

In the stage of inquiry, book runner and potential investors sign the agreement of private placement and investor confirmation letter to clarify each party's rights and obligations. Investors who have signed such documents can only purchase and carry out trading at the time of private placement.

1.4.2 Starting issuance

According to the trend of bond market and the inquiry of current private placement, the bookrunner will flexibly determine the time window of issuance. Unlike public issuance, private placement does not have to make an online announcement. A day before issuance, the bookrunner shall send the purchase specifications to investors that have signed the private placement agreement and investor confirmation letter. Purchase specifications include the following main contents: important notice of purchasing current bonds, main terms of current bonds, purchase rate range of current bonds, purchase time and procedures, placement and payment of current bonds, contact information of bookrunner, designated account of payment, etc.

1.4.2 Book building, payment and distribution

The process of book building, payment and distribution for private placement is the same as that for the public issuance of debt financing instruments. For private placement, no public inducement or disguised form of public issuance shall be employed. Parties of private placement and related staff shall not engage in or assist in the transfer of illicit interests during private placement.

About

International Capital Market Association (ICMA)

ICMA is the trade association for the international capital market with almost 500 member firms from 57 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market.

www.icmagroup.org

National Association of Financial Market Institutional Investors (NAFMII)

NAFMII was founded on September 3, 2007, under the approval of the State Council of China. NAFMII aims to propel the development of China OTC financial market, which is composed of interbank bond market, inter-bank lending market, foreign exchange market, commercial paper market and gold market.

As a self-regulation organization (SRO) in China, the membership of NAFMII includes policy banks, commercial banks, credit cooperative banks, insurance companies, securities houses, fund management companies, trust and investment companies, finance companies affiliated with corporations, credit rating agencies, accounting firms and companies in non-financial sectors.

www.nafmii.org.cn

ICMA would like to acknowledge the contribution of the following banks:
HSBC, Standard Chartered, Deutsche Bank, JP Morgan, Citigroup

International Capital Market Association Limited (ICMA)

23 College Hill,
London,
EC4R 2RP
United Kingdom

Tel: +44 20 7213 0310
Fax: +44 20 7213 0311

info@icmagroup.org
www.icmagroup.org

National Association of Financial Market Institutional Investors (NAFMII)

16/F, Financial Street Center,
9A Financial Street,
Xicheng District,
Beijing 100033,
P.R. China

Tel: 86-10-66539132
Fax: 86-10-66539160

international@nafmii.org.cn
www.nafmii.org.cn