VI

Fees and Taxation in the Inter-Bank Bond Market

This chapter details the typical costs incurred by issuers and investors in the CIBM, with a particular emphasis on costs associated with bond or note issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions taken by issuers or investors (as explained in this document) and follow the lifecycle of a bond or note in the CIBM.

A. Costs Associated with Bond and Note Issuance

These costs refer to those charges incurred as a result of the issuance of debt financing instruments in the CIBM, as charged by regulatory authorities, market institutions, and market intermediaries. Other costs will or may be incurred by the issuer through services obtained from market intermediates and supporting entities, such as law firms and accounting or audit firms.

The costs for the issuance of Panda bonds in the CIBM are commensurate with the typical costs shown in this chapter. Principally, nonresident issuers do not incur other charges in the market when compared to domestic issuers, with the notable exception being the credit rating process (see also section 5).

1. Approval from the People's Bank of China

Approval from the PBOC for debt financing instrument issuance is required for financial bonds issued by commercial or policy banks, as well as for Panda bonds issued by nonresident financial institutions. Please also see Chapter III.F for descriptions of the respective approval processes.

PBOC approval is mandated by law and does not attract a fee.

2. Registration with the National Association of Financial Market Institutional Investors

As the SRO for the CIBM, NAFMII exercises self-regulatory powers over issuance and market activities in the CIBM and conducts the registration (approval) processes for new issuance of debt financing instruments other than financial bonds and Panda bonds issued by nonresident financial institutions. Please see Chapter III.F for a comprehensive description of the registration process for particular issuer types.

The registration with NAFMII of nonfinancial debt financing instruments by resident and nonresident issuers is mandatory and involves a review and registration (or rejection) process. NAFMII does not levy a fee for this review and registration process.

3. Underwriter Fee (Mandatory for Public Offerings)

The issuance of debt financing instruments by the private sector in the CIBM requires the use of an underwriter. If the issuer chooses to appoint more than one underwriter, a lead underwriter needs to be appointed. Underwriters for issuances by nonfinancial enterprises will have to be appropriately licensed by NAFMII, while the underwriting of financial bonds does not require a specific license from the PBOC. Please see Chapter III.M for more information on underwriters, as well as other market participants in the context of debt financing instrument issuance.

According to PBOC regulations, the underwriting fee for major underwriters should not be lower than 0.4% of the total bond amount. Typically, the fee may be expected to range between 0.4% and 0.6% of the total bond amount, including the underwriting syndicate fee, if so applicable. As another guide, and depending on the issuance method used, the underwriting fee for Treasury bonds is 0.1% of the total bond amount; for financial bonds, the underwriting fee is 0.15% of the issuance amount.

Ultimately, an underwriter will charge a fee commensurate with the effort and risk of a commitment or agency underwriting service for the debt financing instrument issue of the issuer. The fee is likely to follow established market practice or expectations and may be subject to negotiations between the issuer and (lead) underwriter.

4. Bond Trustee Fee

Nonfinancial enterprises wanting to issue debt financing instruments in the CIBM are required to appoint a bond trustee effective 1 July 2020. While the role and responsibilities of the bond trustee are prescribed in the underlying NAFMII rules and prescribe the right of the bond trustee to charge fees and recover expenses, no fee guidance had been issued for this service provision at the time of compilation of this bond market guide.

In addition, some of the functions now assumed by the bond trustee had previously been carried out by the lead underwriter and were covered by the overall charges to the issuer. As such, it is likely that market practice will determine the fee level for this new service, which may result in a one-time and/or annual fee.

Please also see Chapter III.S for a description of the bond trustee concept introduced by NAFMII in December 2019.

5. Initial Rating Fee (Mandatory)

Issuers wishing to issue their debt financing instruments in the CIBM will have to be rated and have their bonds rated by one or more domestic CRA in the case of a public offering. The rating is to be prominently featured in the public offering prospectus of the debt financing instruments to be issued. In turn, Panda bonds (those issued by a foreign entity) will need to be rated by at least one domestic CRA if they are to be publicly offered. In the case of a private placement, a credit rating is not mandatory and credit rating and tracking practices may be subject to the agreement between issuer and investors.

If the issuing company has not been rated for 3 consecutive years, any commercial paper it issues will need to be rated. Please see Chapter III.O for more details on the credit rating requirements in the CIBM.

Rating agencies will charge an initial rating fee commensurate with their expected work to determine such a credit rating. Given that the bond market in the PRC features a number of bond rating agencies, the initial rating fee is likely subject to market practices and commercial considerations. In the case of commercial paper, rating fees in the CIBM are expected to be between 0.01% and 0.02% of the total face value of the commercial paper.

6. Registration of Debt Financing Instruments at the Central Securities Depositories

Debt financing instruments newly issued in the CIBM will need to be registered and deposited with CCDC or SHCH, depending on the type of instrument. The CSDs will charge the issuer for this initial or issuance registration.

The issuers are expected to pay the initial registration fee within 3 business days of the registration.

a. China Central Depository & Clearing Co., Ltd.

CCDC charges issuance and registration fees by a certain proportion of the issuance amount from 0.6 basis points to 1.15 basis points, based on the issuance face value and tenor. Table 6.1 provides an overview of the fee distinctions.

Table 6.1: Debt Financing Instrument Registration Fees at CCDC

Tenor of Debt Financing Instrument 债务工具期限	Issuance Amount 发债额	Fee Rate (basis points)	Charging Basis 计费基数	Minimum Charge (CNY) 最低收费额（万）
Up to 1 year	CNY3 billion (or less)	0.7	Charge by section based on bond face value (cumulative) 按发债面额分段计费（累加）	5,000
	More than CNY3 billion	0.6		
1 year to 5 years	CNY3 billion (or less)	1.05	Charge by section based on bond face value (cumulative) 按发债面额分段计费（累加）	10,000
	More than CNY3 billion	1.0		
5 years to 10 years	CNY3 billion (or less)	1.1	Charge by section based on bond face value (cumulative) 按发债面额分段计费（累加）	15,000
	More than CNY3 billion	1.05		
More than 10 years	CNY3 billion (or less)	1.15	Charge by section based on bond face value (cumulative) 按发债面额分段计费（累加）	20,000

CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi.
Source: China Central Depository & Clearing Co., Ltd. www.chinabond.com.cn.

b. Shanghai Clearing House Co., Ltd.

Pursuant to provisions in its issuer service agreement, SHCH charges a fee for the initial or issuance registration of debt financing instruments.

In its Shanghai Clearing House Methods on Charging for Registration and Settlement, issued in 2013, SHCH published the fee levels as shown in

Table 6.2, ranging from 0.3 basis points to 1.15 basis points of the face value and tiered according to the tenor of the debt financing instruments.

Table 6.2: Debt Financing Instrument Registration Fees at SHCH

	Charging Rate (basis points)		
Product Period	The part of issuance amount that is not more than CNY3 billion	The part of issuance amount that is higher than CNY3 billion	**Minimum Fee** (CNY)
Not more than 90 days	0.3		–
90 days up to 180 days	0.4		–
More than 180 days up to 270 days	0.5		–
More than 270 days up to 1 year	0.7	0.6	5,000
More than 1 year up to 3 years	1.0	0.9	10,000
More than 3 years up to 5 years	1.05	1.0	10,000
More than 5 years up to 10 years	1.1	1.05	15,000
More than 10 years	1.15	1.1	20,000

CNY = Chinese renminbi, SHCH = Shanghai Clearing House.
Source: Shanghai Clearing House Co., Ltd.
http://english.shclearing.com/csd/rules/201705/t20170510_258330.html?xyz=0.5524966347082564.

B. Ongoing Costs for Issuers of Debt Financing Instruments

Once an issuer has issued debt financing instruments and registered them with the respective CSD, the issuer will incur some recurring costs throughout the lifecycle of the bonds or notes. Costs may include the service provision by a CRA, depending on the type of issuance, or paying agency services by the CSD.

1. Interest Payment and Redemption Fee (Mandatory)

The CSDs in the China bond market also fulfill the role of a paying agent, carry out the payment of interest to bondholders on behalf of the issuer, and process the redemption of debt financing instruments upon maturity. To defray the costs incurred as a result of this service provision, the CSDs charge an interest payment and redemption fee to issuers during the lifetime of the bond or note.

a. China Central Depository & Clearing Co., Ltd.

CCDC levies a fee for the provision of interest payment and redemption services through the lifecycle of a bond or note. The fee amounts to 0.05 basis points of the amount of interest payments and the redemption; there are no minimum or maximum amounts.

b. Shanghai Clearing House Co., Ltd.

SHCH charges a service fee for the payment of interest and principal, which is distinguished by the type of instrument. For debt financing instruments with a tenor of not more than 90 days, SHCH charges 0.3 basis points of the issuance amount, and 0.4 basis points for instruments between 90 days and 180 days. Services for those instruments with a tenor longer than 180 days are charged at 0.5 basis points of the issuance amount. No minimum fee applies.

2. (Annual) Credit Rating Fee

Debt financing instruments issued in the CIBM via a public offering will need to be rated upon issuance. In addition, such instruments are required to be monitored by CRAs throughout the tenor of the bond or note; this practice is referred to as rating tracking (跟踪评级).

The review and update of the credit rating by the CRAs results in a fee to the issuer, typically on an annual basis. This rating fee is expected to be subject to negotiation between the CRA and the issuer, and fee scales will follow market practice.

Please also see Chapter III.O for details on credit rating requirements in the CIBM.

C. Costs for Deposit and Withdrawal of Debt Financing Instruments

The CIBM is dematerialized; therefore paper-based certificates are no longer available. As such, there is no concept of a deposit or withdrawal of debt financing instruments by debt financing instrument holders during the tenor of an instrument, and there are no associated fees.

Instead, the CSDs only conduct bond registration and book-entry ownership transfer. The CSDs charge issuers fees for issuance services and charge investors account maintenance fees and settlement fees.

D. Costs for Account Maintenance at the Central Securities Depositories

1. China Central Depository & Clearing Co., Ltd.

CCDC charges its account holders account maintenance fees, either on the basis of the amount of holdings of debt financing instruments in an account, or as a flat fee. The fee method and fee level depend on the type of account holder (Table 6.3).

Table 6.3: CCDC Account Opening and Maintenance Fees

Account Type 账户类型	Charges Subject 收费标的	Fees 收费标准	Payee 收费主体
Type A account holder 甲类账户持有人	Holdings of more than CNY20 billion	CNY24,000 per month per household	CCDC
	Holdings of less than CNY20 billion	CNY12,000 per month per household	CCDC
Type B account holder 乙类账户持有人	Flat fee	CNY2,000 per month	CCDC
Type C account holder 丙类	New account	CNY500 one time per household	CCDC
Type D account holder 丙类账户持有人	Flat fee	CNY100 per month per household	Settlement agent 结算代理人

CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi.
Source: CCDC.

2. Shanghai Clearing House Co., Ltd.

SHCH applies an account maintenance fee, which is charged to the account holder on a monthly basis (for Class A and Class B). The fee level differs depending on the type of account holder (Table 6.4).

Table 6.4: SHCH Account Maintenance Fees

Type of Holder Account	Charging Standard
Bond settlement agent (Class A)	CNY2,500 per month per account
Other direct settlement member (Class B)	CNY1,500 per month per account
Indirect settlement member (Class C)	CNY500 per account, collected when product is established

CNY = Chinese renminbi, SHCH = Shanghai Clearing House.
Source: Shanghai Clearing House Co., Ltd.

E. Costs Associated with Debt Financing Instrument Trading in the Inter-Bank Bond Market

CIBM transactions are carried out through the trading platform of CFETS and via the proprietary systems of money brokerage companies.

1. Transactions via the China Foreign Exchange Trading System

CFETS charges transaction fees to both parties in a transaction, based on the transaction amount. Transaction fee rates differ by product or financing maturity, and range from 0.5 to 2.5 per million, with a ceiling of CNY1,000 per transaction. Details on individual charges are shown in Table 6.5.

Table 6.5: China Foreign Exchange Trading System Transaction Fees for Debt Financing Instruments

Transaction Type	Tenor 交易类别	Fees (ppm) 收费标准（百万分之）
Financing transactions 融资类交易	1 day (including overnight)	0.5
	2 or more days	1.5
Sale transactions 买卖类交易		2.5

ppm = parts per million.
Note: 1 ppm = 0.0001%.
Source: China Foreign Exchange Trade System.

2. Transactions Using a Money Broker

Money brokers charge a commission to their clients. The commission rate is typically subject to negotiation with each client.

F. Costs for Settlement of Bond and Note Transactions and Transfers

Trades or transfer transactions in the CIBM are settled through accounts of the market participants or their intermediaries at CCDC or SHCH, typically depending on the type of instrument. The fees charged by the respective CSDs for the settlement of transactions in the CIBM differ by bond type and settlement method.

1. China Central Depository & Clearing Co., Ltd.

CCDC charges settlement fees to both parties for every transaction. For different bond types and settlement methods, the fees range from CNY100 to CNY200. Table 6.6 contains an overview of the applicable charges.

Table 6.6: Settlement Charges at CCDC

Transaction Type (交易品种)	**Settlement Type** 结算方式	**Charged Object** 收费对象	**Charge Subject** 收费标的	**Fee** (CNY) 收费标准
Spot transaction 现券	FOP 纯券过户	The two parties of settlement 结算双方	Transaction 笔	100
	DVP			150
Pledged repo 质押式回购		The two parties of settlement 结算双方	Single bond per transaction 单券种 per 笔	120
			More than a single bond per transaction 多券种 per 笔	200
Outright repo 买断式回购		The two parties of settlement 结算双方	Transaction 笔	200
Bond forward 远期交易		The two parties of settlement 结算双方	Transaction 笔	170
Securities lending 证券借贷		The two parties of settlement 结算双方	Transaction 笔	200

CCDC = China Central Depository & Clearing Co., Ltd; CNY = Chinese renminbi; DVP = delivery versus payment; FOP = free of payment.
Source: China Central Depository & Clearing Co., Ltd. www.chinabond.com.cn.

2. Shanghai Clearing House Co., Ltd.

SHCH charges a settlement transfer fee to both parties for every transaction. Settlement fees range from CNY100 to CNY200 per transaction according to the transaction types and settlement methods (Table 6.7).

SHCH also charges a nontrading transfer fee of CNY200 for each transfer that is not the result of a trade captured on the CFETS platform. The fee is charged to both transferor and transferee. In addition, if an account holder pledges debt financing instruments, the transfer between the bond account of the investor and the pledge account of the investor attracts a pledge transfer fee of CNY100.

If the counterparties settling through SHCH choose to use the CCP function prior to settlement, a different fee schedule applies. Detailed rules for the CCP function and fees can be found on the SHCH website.[106]

[106] See http://english.shclearing.com/ccpservices/rules/guidelines/201705/t20170510_258307.html?xyz=0.3852550403147222.

Table 6.7: Settlement Charges at SHCH

Transaction Type	Settlement Method	Charging Object	Charging Base	Charging Standard (CNY)
Cash bond	FOP	Two parties to a settlement	Case	100
	DVP, PAD, DAP			150
Pledged repo	DVP, PAD, DAP	Two parties to a settlement	Single bond type per case	120
			Multiple bond types per case	200
Outright repo	DVP, PAD, DAP	Two parties to a settlement	Case	200
Forward	DVP, PAD, DAP	Two parties to a settlement	Case	170

CNY = Chinese renminbi, DAP = delivery after payment, DVP = delivery versus payment, FOP = free of payment, PAD = payment after delivery, SHCH = Shanghai Clearing House.
Source: Shanghai Clearing House Co., Ltd.
http://english.shclearing.com/csd/rules/201705/t20170510_258330.html?xyz=0.2645883728836979.

3. Cross-Market Transfer Fee

In the event that a participant requests a cross-market transfer between accounts in different market segments, CCDC will charge a so-called cross-market fee.

For example, for Treasury bonds and local government bonds transferred from the CIBM to the exchange market, CCDC charges 0.005% of the bond par value, with a minimum fee of CNY10 and a maximum of CNY10,000 per transfer. Enterprise bonds are exempted from the cross-market transfer fee. This fee is charged to the account holder at CCDC.

G. Taxation Framework

Tax legislation and policy are developed jointly by the State Administration of Taxation (SAT) and the MOF, with the SAT and its provincial and municipal offices administering taxation policies. Each locality in the PRC has a state tax bureau under the SAT and a local tax bureau under both the SAT and the local government.

Taxation treatment differs for domestic investors and for investments made by QFIIs and RQFIIs, as explained in the following sections.

1. Tax Treatment for Investments by Qualified Foreign Institutional Investors and Renminbi Qualified Foreign Institutional Investors

According to circulars issued by the SAT and the MOF, as well as other materials, QFII and RQFII investments in central government bonds and local government bonds are exempted from the application of business tax, corporate income tax (CIT), and other relevant taxes.[107]

[107] In compiling this information, ABMF SF1 referred to publicly available materials produced by Citibank N.A., BNP Paribas, HSBC, PricewaterhouseCoopers, and others.

Interest income from PFBs and bonds issued by financial institutions is subject to a 10% withholding tax and a 6% value-added tax (VAT). Table 6.8 provides an overview of the taxation treatment for QFIIs and RQFIIs.

Table 6.8: Summary of Tax Treatment for Foreign Investors in the China Bond Market

Items	Corporate Income Tax (WHT)			Value-Added Tax	
	Coupon Interest		Capital Gains	Interest (no withholding agent)	Capital Gains
	QFII and RQFII (withheld at source for exchange-traded bonds)	CIBM Direct or Bond Connect (no withholding agent)			
Government bonds and local government bonds	Exempt		Exempt	Exempt	Exempt
Other nongovernment bonds, including policy bank financial bonds	10%[a]		Exempt	6% (plus applicable surcharge)[a]	Exempt

CIBM = China Inter-Bank Bond Market, QFII = Qualified Foreign Institutional Investor, RQFII = Renminbi Qualified Foreign Institutional Investor, WHT = withholding tax.
[a] The Ministry of Finance and State Administration of Taxation issued a 3-year exemption (from 7 November 2018 to 6 November 2021) from the corporate income tax and value-added tax on interest income derived by foreign investors from their investment in the China bond market. For more details, see http://www.chinatax.gov.cn/n810219/n810744/n3428471/n3428491/c3913568/content.html.
Sources: BNP Paribas, Citibank N.A., HSBC, PricewaterhouseCoopers, and other publicly available sources.

2. Summary of Tax Treatment for Domestic Investors

For domestic investors, interest income derived from central government bonds and local government bonds is exempt from CIT and VAT. Capital gains are subject to a 6% VAT.

Table 6.9: Summary of Tax Treatment of Bond Investments by Domestic Institutional Investors

Items	Corporate Income Tax (WHT)		Value-Added Tax	
	Coupon Interest	Capital Gains	Interest	Capital Gains
Government bonds and local government bonds	Not taxed	25%	Not taxed	6%
Government-supported bonds	12.5%	25%	Not taxed	6%
PBOC bills, policy bank financial bonds, commercial bank bonds	25%	25%	Not taxed	6%
Other bonds[a]	25%	25%	6%	6%

PBOC = People's Bank of China, WHT = withholding tax.
[a] The applicable tax rate for bonds issued by railway corporations is 12.5%.
Sources: BNP Paribas, Citibank N.A., HSBC, and other publicly available sources.

Interest income from PFBs and bonds issued by financial institutions is subject to a CIT of 25% and an additional 6% VAT if not held to maturity. Also, capital gains from investment in these instruments is subject to a 6% VAT. Table 6.9 provides an overview of the taxation treatment for domestic institutional investors in the exchange bond market.

3. Corporate Income Tax

Treasury bonds and local government bonds are not subject to income tax, with the prevailing view and practice in the market that government bonds are specifically exempt from CIT.

4. Withholding Tax

Interest paid to nonresident investors from debt instruments is subject to a 10% withholding tax (WHT).

According to the Corporate Income Tax Law, which took effect on 1 January 2008, as well as the Implementation Rules issued by the SAT on 23 January 2009, QFIIs and RQFIIs are also subject to a WHT of 10% on their PRC-sourced interest income. At the same time, interest income derived from government bond investments during the holding period is exempt from CIT.

As per market practice, the following entities are responsible for withholding WHT:

i. bond issuers are required to withhold WHT on interest when the interest is paid or due; and
ii. custodian agent banks of QFIIs or RQFIIs are also required to withhold a 10% tax on interest from all QFII or RQFII cash accounts, including CNY-denominated and foreign currency accounts.

Under the general tax provisions of the Corporate Income Tax Law, a nonresident enterprise that is not effectively connected with any establishment or place of business in the PRC (refers to tax technical term of permanent establishment) would be subject to a 10% withholding tax on capital gains from listed securities if such a tax were implemented.

On 30 August 2018, the State Committee of the State Council proposed a 3-year exemption from CIT and VAT on interest income derived by foreign investors from their investment in the China bond market. Caishui (财税) No. 108 (2018) announced a 3-year exemption (from 7 November 2018 to 6 November 2021) from CIT and VAT on interest income derived by foreign investors from their investments in the China bond market.

5. Capital Gains Tax

On 14 November 2014, the MOF, the SAT, and CSRC jointly issued a notice regarding the tax treatment of capital gains for QFIIs and RQFIIs. The notice advised only that QFIIs and RQFIIs will be temporarily exempted from CIT for the capital gains derived from transferring stocks and other equity investments in the PRC, effective 17 November 2014, and they shall pay corporate income tax on the capital gains derived before 17 November 2014.

For securities traded in the exchange bond market (and in the CIBM), capital gains realized from bond sales were theoretically out of the scope for an application of CIT. As further advised by the MOF and the SAT in the PBOC meeting with CIBM bond settlement agents (CCDC and SHCH) on 20 October 2016, the framework for the application of CIT on CIBM capital gains was close to finalization, by which CIT on the capital gains of QFIIs and RQFIIs shall be exempted.

6. Value-Added Tax

On 23 March 2016, the MOF and SAT jointly issued Caishui No. 36, which sets out the detailed implementation rules for the transition from business tax to VAT. From 1 May 2016, VAT replaced the business tax to cover all sectors that used to fall under the business tax regime. For the financial industry, a 6% VAT now applies to nearly all major forms of remuneration derived from financial services.

According to Caishui No. 36 and Caishui No. 70 (released on 30 June 2016), the MOF and the SAT stipulated that

i. interest income from government bonds issued by the MOF and local government bonds is exempted from VAT, and
ii. income derived from securities trading through domestic companies appointed by QFIIs and RQFIIs is exempted from VAT.

According to Caishui No. 36, QFIIs are exempt from VAT with respect to gains derived from the trading of securities investments under the QFII scheme. However, it is uncertain whether RQFIIs can be exempted from VAT with respect to gains derived from the trading of securities investments and whether securities investments also include bond investments.

A 6% VAT will also apply to interest income derived from bond investment by domestic institutional investors, while the deposit interest income derived from cash accounts with commercial banks is beyond its scope.

7. Double Taxation Agreements

The PRC has entered into more than 100 double taxation agreements (DTAs).

If a nonresident investor can apply a DTA and the DTA rate differs, the tax treaty rate should apply. Eligible foreign investors may apply for relief under any relevant tax treaty. Foreign investors are required to submit documents to the SAT and state or local tax authorities for approval or reporting before they can enjoy tax treaty rates on dividends or interest.

RQFIIs who are eligible for a lower tax rate under a DTA can apply for tax-relief-at-source or file a reclaim from the tax bureau at the paying agent’s domicile. For an RQFII’s deposit interest, the custodian agent bank is willing, through its domicile tax bureau, to help eligible RQFIIs file the application to claim tax treaty benefits.

8. Stamp Duty

Stamp duty is not applicable for transactions in debt financing instruments in the CIBM. The application of stamp duty is limited to the equity market.

9. Transaction Tax

A transaction tax is not applicable in either the CIBM or in other market segments in the PRC.