

PBC Announcement [2016] No. 3
(Facilitating Commercial Institutions to Enter the
Inter-bank Bond Market)

With a view to promoting the opening-up of the inter-bank bond market and facilitating investment by foreign institutional investors that meet certain requirements in accordance with the laws and regulations, the following announcement is made on investment in the inter-bank bond market by foreign institutional investors:

1. For the purpose of the Announcement, foreign institutional investors refer to financial institutions lawfully registered and incorporated outside the territory of the People's Republic of China, including commercial banks, insurance companies, securities companies, fund management companies and other asset management institutions, investment products issued by the aforementioned institutions to clients in accordance with the laws and regulations, and other medium and long term institutional investors approved by the People's Bank of China (PBC), such as pension funds, charity funds and endowment funds.

2. A foreign institutional investor shall, when making investment in the inter-bank bond market, meet the requirements specified as follows:

(1) Established in accordance with laws of the country or region where it is located;

(2) With sound governance structure and internal control mechanism, sound business operation, and no record of serious penalty by regulatory bodies as a result of violation of laws and regulations in bond investment business in the preceding three years;

(3) With lawful source of funds;

(4) Having the necessary capability of risk identification and risk tolerance, acknowledging the risks involved in bond investment, and being ready to take responsibility for such risks on their own; and

(5) Other conditions as stipulated by the PBC.

3. The PBC encourages foreign institutional investors to make medium and long term investments in the inter-bank bond market, and exercises macro-prudential regulation over the investment activities of foreign institutional investors. Foreign institutional investors may make money exchanges according to relevant regulations on the foreign exchange administration.

4. A qualified foreign institutional investor can conduct in the inter-bank bond market cash bond and other transactions approved by the PBC.

5. A qualified foreign institutional investor shall entrust an inter-bank market settlement agent competent in international settlement business (hereinafter referred to as the "settlement agent") to conduct trading and settlement, unless otherwise stipulated by the PBC. Trading and settlement by the settlement agent shall be conducted in accordance with the agent settlement agreement signed between the agent and the investor.

6. A settlement agent entrusted to provide agent trading and settlement services to a foreign institutional investor shall submit the Investment Registration Form to the PBC Shanghai Head Office for record on behalf of the foreign institutional investor.

7. A settlement agent entrusted to provide agency trading and settlement services to foreign institutional investors shall meet the following requirements:

(1) Specialized business unit responsible for making investments on behalf of overseas institutions, with its staff, system, institutional arrangements and assets completely separated from the proprietary business of investment management;

(2) Sound system for agent bond trading and settlement business, with a complete of administrative measures for agent bond trading and settlement business, business operation procedures, risk management system and code of conduct for staff;

(3) The information technology facility, technical support staff, and rules for information system management which are needed for bond trading and settlement services are in place;

(4) Relevant personnel including heads and professional staff of the agent bond trading and settlement unit having attended the relevant training programs organized by the self-regulatory organizations of inter-bank bond market or intermediary organizations;

(5) No violation of laws nor serious incompliance of rules and regulations in the previous three years; and

(6) Other requirements as stipulated by the PBC.

8. The settlement agent entrusted by a foreign institutional investor to conduct bond trading and settlement shall provide basic services as follows:

(1) Submitting the inter-bank bond market Investment Registration Form on behalf of the foreign institutional investor;

(2) Assisting the foreign institutional investor in opening, changing and closing RMB special deposit account, bond account, special account for settlement funds and bond trading account in accordance with relevant rules and regulations;

(3) Conducting bond trading and settlement on behalf of and pursuant to the instructions of the foreign institutional investor; and

(4) Handling bond interest payment, principal redemption and other matters on behalf of the foreign institutional investor.

9. The settlement agent entrusted by a foreign institutional investor to conduct bond trading and settlement can provide asset custody services, such as asset custody, accounting and valuation, and report processing, to the foreign institutional investor.

10. A settlement agent entrusted to provide asset custody services for a foreign institutional investor shall meet the following additional requirements as well:

(1) Having a good record of business compliance, with healthy governance structure, sound internal auditing and surveillance system and risk control mechanism;

(2) Having established an independent business unit with required capacity for asset custody, strictly separated its own assets from the assets under custody, with completely separate accounting, auditing and valuation operations for clients' assets under custody;

(3) The senior manager responsible for asset custody business, head and professional staff of the asset custody unit having all attended training programs organized by the self-regulatory organization of the inter-bank bond market or intermediary organizations;

(4) Having established sound regulations and principles for the asset custody business, including regulations for asset custody, operational guidelines, risk management, code of conduct, and rules of accounting.

(5) Having the necessary technical facilities for asset custody, as well as staff of technical support and rules for information system management;

(6) No violation of laws nor serious incompliance of rules and regulations in the preceding three years; and

(7) Other requirements as stipulated by the PBC.

11. A settlement agent shall provide services and charge fees in a fair, equitable and open principle. The service fee schedule shall be decided through consultations between the settlement agent and foreign institutional investor on a voluntary basis in a market-oriented principle.

12. A foreign institutional investor shall abide by the relevant provisions of Chinese laws and regulations governing the inter-bank bond market when making investment in the inter-bank bond market.

13. Under any of the following circumstances, a foreign institutional investor shall entrust the settlement agent without delay to exit the inter-bank bond market through relevant procedures:

(1) The overseas institution is dissolved by law, ordered to close, terminated or declared bankruptcy;

(2) The product reaches maturity or the contract expires; or

(3) Other circumstances as specified by the PBC.

14. A settlement agent shall comply with relevant rules governing the inter-bank bond market and perform the following functions and powers:

(1) Examine the qualifications of the foreign institutional investor according to regulations of the PBC, and only accept entrustment from a qualified foreign institutional investor;

(2) Provide adequate information about the inter-bank bond market to the entrusting foreign institutional investor, and inform risks as well;

(3) Analyze and monitor relevant market in cooperation with the PBC, the National Association of Financial Market Institutional Investors, the National Inter-bank Funding Center and the institution for bond registration, custody and settlement, and report the information on a foreign institutional investor and its investments to the PBC Shanghai Head Office;

(4) Comply with the relevant PBC rules on cross-border RMB business, conduct real-time monitoring on the RMB special deposit account of a foreign institutional investor, and timely report accurate and complete information of relevant accounts and cross-border RMB payments and receipts to the RMB Cross-Border Payment and Receipt Management Information System (RCPMIS); and

(5) Other responsibilities as stipulated by the PBC.

15. The PBC Shanghai Head Office shall, pursuant to the Announcement, formulate corresponding rules for its implementation and provide Investment Registration Form for foreign institutional investors, strengthen in-process and post supervision on foreign institutional investors and settlement agents, and report registration and investment activities of foreign institutional investors to the PBC Headquarter in due cause.

16. The National Inter-bank Funding Center and the institution for bond registration, custody and settlement shall, in line with their respective responsibilities, make efforts to provide services to, and monitor the foreign institutional investors' investment activities in the Inter-Bank bond market and report to the PBC Shanghai Head Office. Any major issues or abnormal activities shall be promptly dealt with and reported to the PBC Headquarter, with a copy sent to the National Association of Financial Market Institutional Investors.

17. Violation of the laws or incompliance of rules and regulations by a foreign institutional investor or a settlement agent shall be subject to regulatory measures and administrative penalties enforced by the PBC according to law.

18. The provisions of the Announcement are applicable to investments in the inter-bank bond market by institutional investors from the Hong Kong Special Administrative Region (SAR), Macao SAR and Taiwan.

19. Investments in the inter-bank bond market by foreign central banks, international financial institutions and sovereign wealth funds are subject to provisions of the *Notice of the People's Bank of China on Issues Concerning the Pilot Program of Investments by Foreign Central Banks, International Financial Institutions and Sovereign Wealth Funds with RMB Funds in the Inter-bank Market* (PBC Document [2015] No. 220).

20. Investments in the inter-bank bond market by qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII) shall be regulated with reference to provisions of the Announcement.

21. The Announcement shall come into force on the date of release. In case of any discrepancy between the Announcement and previous regulations concerning the investment in the inter-bank bond market by foreign institutional investors, the Announcement shall prevail.