

Administrative Measures for Bond Transaction in the China's Inter-bank Bond Market

PBC Decree [2000] No. 2

To promote the further development of China's Inter-bank bond market, standardize bond trading, guard against market risk and protect the legitimate rights and interests of all parties, the People's Bank of China has formulated the *Administrative Measures for Bond Trading in the China's Inter-bank bond market*, which is now released for implementation.

Governor: Dai Xianglong

April 30, 2000

Administrative Measures for Bond Transaction in the China's Inter-bank Bond Market

Chapter One General Provisions

Article 1 The *Administrative Measures for Bond Trading in the China's Inter-bank bond market* (hereinafter referred to as the “Measures”) is formulated in accordance with relevant laws and regulations of the State, for the purpose of standardizing the bond trading in the China's Inter-bank bond market, guarding against trading risks, safeguarding the legitimate rights and interests of all parties and promoting the healthy development of China's Inter-bank bond market.

Article 2 For the purpose of *the Measures*, bond trading in the China's Inter-bank bond market (hereinafter referred to as the “bond trading”) means the bond transactions conducted by institutional investors mainly including commercial banks by way of inquiry.

Article 3 Bond trading includes repo and cash bond trading.

Repo is a short-term financing business with the bond pledged as collateral, in which, the borrower (repo party) that borrows money from the lender (reverse repo party) backed by the pledged bond agrees to repay at the agreed repo rate on a future date and the reverse repo party returns the pledged bond to the repo party.

Spot bond trading means that two parties agree to transfer ownership of bond at a fixed price.

Article 4 For the purpose of the Measures, bond refers to the book-entry bonds such as government bonds, central bank bonds and financial bonds, which are approved by the People's Bank of China (hereinafter referred to as the “PBC”) for trading in the China's Inter-bank bond market.

Article 5 Bond trading shall follow the principles of fairness, integrity and self-discipline.

Article 6 China Central Depository & Clearing Co., Ltd. (“CCDC”) is the bond registration, custody and settlement institution designated by the PBC.

Article 7 The PBC is the authority in charge of China's Inter-bank bond market. Branches of the PBC are responsible for daily supervision over the bond transactions conducted by the financial institutions within their jurisdiction.

Chapter Two Participants and Intermediaries

Article 8 The following institutions can be the participants engaged in bond trading in the China's Inter-bank bond market:

- (1) Commercial banks and their authorized branches with corporate capacity in China;
- (2) Non-banking institutions and non-financial institutions with corporate capacity in China; and
- (3) Branches of foreign banks approved by the PBC to operate RMB business.

Article 9 The above-mentioned institutions shall sign a master agreement on bond repo for access to the China's Inter-bank bond market.

Article 10 A financial institution may either conduct bond trading and settlement directly, or entrust a settlement agent for bond trading and settlement. A non-financial institution shall entrust a settlement agent to conduct bond trading and settlement.

Article 11 The settlement agent means the financial institution approved by the PBC to handle bond trading and settlement on behalf of other participants, which is governed by rules separately formulated by the PBC.

Article 12 Bilateral quotation provider refers to the financial institution that provides bilateral prices (i.e. buying price and selling price) for spot bond trading and assumes the obligation of maintaining market liquidity under the approval of the PBC, which is governed by rules separately formulated by the PBC.

Article 13 The National Inter-bank Funding Center (hereinafter referred to as the “CFETS”) is responsible for providing intermediary and information services for the quotation and trading of participants, and the CCDC is responsible for providing custody, settlement and information services for participants.

Subject to the authorization of the PBC, the CFETS and CCDC can disclose relevant market information.

Article 14 The clearing bank for bond trading shall provide clearing service for participants.

Chapter Three Bond Trading

Article 15 Bond trading shall be conducted by way of inquiry, with independent negotiation and transactions concluded separately.

Article 16 A written contract shall be made for bond trading. The contract shall specify the elements such as trading date, trading direction, bond type, number of bonds, trading price or interest rate, account and settlement method, delivery amount and delivery time; and its written forms include the trade tickets generated in the inter-bank trading system , telegraph, telex, facsimile, contract and letter.

The master agreement on bond repo and the repo contract in the written form as mentioned above constitute a complete contract for repo transaction.

Article 17 The repo transaction with the bond pledged as collateral should be registered; and repo contract will take effect upon the registration of pledge.

Article 18 Once the contract is concluded, the parties to the transaction shall fully fulfill the obligations stipulated in the contract and shall not arbitrarily change or cancel it.

Article 19 The selling/buying price or repo rate in the spot bond trading shall be determined by the parties to the transaction.

Article 20 Participants shall not charge any unapproved fees other than the agreed price or interest in the bond trading.

Article 21 During the repo period, the parties to the transaction shall not use pledged bonds.

Article 22 The repo period is up to 365 days. After the expiration of repo, the funds under the repo shall be returned in full according to the contract, and the pledge relationship shall be lifted and shall not be extended in any way.

Article 23 Participants shall not be engaged in margin trading including securities leading and leasing.

Article 24 Financial institutions shall present a written report on their activities in the China's Inter-bank bond market to local branches of the PBC on a quarterly basis.

Article 25 The CFETS and CCDC shall report to the PBC on bond trading and delivery on a regular basis.

Chapter Four Custody and Settlement

Article 26 Participants shall open a bond custody account with the CCDC for the custody of bonds held by them.

Article 27 The bond custody accounts shall be subject to classified management by function, and relevant management regulations will be formulated separately.

Article 28 Bond settlement shall be conducted through the CCDC's central bond bookkeeping system.

Article 29 The funds in the bond trading shall be settled by way of transfer.

Commercial banks shall settle the funds in the bond trading through their deposit reserve accounts and the PBC's fund transfer and clearing system. The fund settlement methods for bond trading between commercial banks and other

participants and that between other participants shall be agreed upon by the parties to the transaction.

Article 30 Four settlement methods are available for bond trading, namely delivery versus payment, payment against delivery, delivery against payment and free of payment. Specific settlement method shall be selected by the parties to the transaction through negotiation.

Article 31 The parties to the transaction shall timely send the instructions for delivery of bonds and funds according to the contract; for the bonds and funds available for delivery at the agreed delivery date, short purchase or short selling is not allowed.

Article 32 The CCDC shall timely handle bond delivery pursuant to the instructions that match the elements sent by the parties to the transaction.

The clearing bank shall promptly allocate and transfer funds to the participants in the bond trading.

Article 33 The CCDC shall report to the PBC on the custody and settlement of bonds on a regular basis, and provide participants with the services such as bond custody, settlement, principal and interest payment and account inquiry in a timely manner; besides, it shall establish a rigid internal audit system and be responsible for the authenticity, accuracy and completeness of bond account data as well as the confidentiality of account owner.

Chapter Five Penalties

Article 34 In case a participant has any of the following acts, it will be given a warning by the PBC and may be imposed a fine of less than RMB30,000 with the suspension or cancellation of its qualification for bond trading; the direct responsible officer and personnel will be given disciplinary punishment by their competent department; in case of violation of the PBC's regulations on the qualifications of senior management personnel of financial institutions, related personnel will be punished according to appropriate regulations.

- (1) Being engaged in margin trading including securities lending and leasing without approval;
- (2) Unauthorized trading of bonds whose listing is unapproved;
- (3) Fabrication and provision of false data and transaction information;
- (4) Malicious manipulation of bond trading prices, or fabrication of bond prices;
- (5) Failure of complying with relevant rules or agreements, which has caused serious consequences;
- (6) Illegal operations which have caused damage to trading system and bond bookkeeping system; or
- (7) Other acts in violation of the Measures.

Article 35 If any settlement agent or bilateral quotation provider violates relevant provisions, it will be handled according to appropriate regulations of the PBC.

Article 36 In case the CFETS or CCDC has any of the following acts, it will be given a warning by the PBC and may be imposed a fine of less than RMB30,000; the direct responsible officer and personnel will be given disciplinary punishment by their competent department.

- (1) Negligence of duties, which has caused serious losses to participants;
- (2) Release of false information or disclosure of non-public information;
- (3) Cheating or misleading participants, which has caused losses;
- (4) Providing convenience for the irregularities of any participant including malicious manipulation of market and margin trading; or
- (5) Other acts in violation of the Measures.

Article 37 If the clearing bank for bond trading fails to allocate or transfer funds to relevant participants in a timely manner, which has caused losses to the latter, it shall bear corresponding civil liability.

Chapter Six Supplementary Provisions

Article 38 The CFETS and CCDC shall formulate corresponding business rules and implementation rules in accordance with the Measures, report to the PBC for approval or registration, and organize the implementation of such rules.

Article 39 In case of any conflict between any previous regulations and the Measures, the latter shall prevail.

Article 40 The PBC shall be responsible for the interpretation of the Measures.

Article 41 The Measures shall come into force on the date of issuance.