

The People's Bank of China Announcement [2005] No. 9

For the purpose of promoting the development of China's bond market, regulating the forward bond trading, preventing market risks and protecting the legitimate rights and interests of the market participants, the People's Bank of China has formulated the *Provisions Governing the Bond Forward Trading in the China's Inter-bank Bond Market*.

The People's Bank of China
May 11, 2005

Provisions on the Bond Forward Trading in the China's Inter-bank Bond Market

Article 1 For the purpose of regulating the bond forward trading, protecting the legitimate rights and interests of the market participants and promoting the development of the bond market, the People's Bank of China formulated these Provisions in accordance with the *Law of the People's Republic of China on the People's Bank of China* and other relevant laws and administrative regulations.

Article 2 For the purpose of the Provisions, bond forward trading refers to the act by which both parties to a transaction agree, on a certain date in the future, to buy and sell the underlying bonds according to the price and amount as stipulated by them.

Article 3 The types of the underlying bonds for forward trading shall be the central government bonds, central bank bonds, financial bonds and other types of bonds issued upon the approval of the People's Bank of China that have been traded as existing bonds in the China's Inter-bank Bond Market.

Article 4 The forward trading shall comply with the principle of openness, impartiality and fairness.

Article 5 The market participants of forward trading shall be institutional investors in the China's Inter-bank Bond Market.

Article 6 A market participant shall establish a sound internal management system and a risk prevention mechanism for forward trading and shall take effective measures to monitor and control the risks of forward trading. The market participant shall, before carrying out the business of forward trading, submit its internal management measures for forward trading to the relevant supervisory department and simultaneously send to the National Inter-bank Funding Center (hereinafter referred to as the "CFETS") and the China Central Depository & Clearing Co. Ltd. (hereinafter referred to as the "CCDC")

each a copy.

Article 7 In carrying out forward trading, the market participants shall enter into master agreement on the forward trading.

Article 8 The market participants shall carry out forward trading through the trading system of the CFETS and shall conclude a written contract for each transaction. Such a written contract shall be the trade document generated by the trading system of the CFETS. Where both parties to a transaction believe it necessary, they may conclude a supplementary contract.

The master agreement on forward trading, the trade ticket generated by the trading system of the CFETS and the supplementary contract shall constitute a complete forward transaction contract.

Article 9 A lawfully concluded forward transaction contract shall have binding force on both parties to the transaction. Neither of the parties may arbitrarily modify nor cancel the contract.

Article 10 Both parties to a forward transaction may, through negotiation, establish a mechanism to ensure the fulfillment of the contract on the basis of their respective credit standing.

Article 11 The term for the forward transaction from the trade date to the settlement date (including the trade date, excluding the settlement date) shall be determined by both parties of the transaction, but which shall not exceed 365 days.

Article 12 The forward trading shall be executed at a clean price and settled at a full price.

Article 13 Both parties to a forward transaction shall, on the trading date or its next working date, give the settlement instructions and supporting instructions to the CCDC.

Article 14 When a forward transaction is mature, the settlement of funds and bonds shall be made actually.

Article 15 The total balance of the sale or the purchase of a single bond in the forward trading by any market participant (a single fund, if a fund management company uses the property under the fund to conduct forward trading) shall not exceed 20% of the circulation volume of the bond , and the total balance of the sale in forward trading shall not exceed 200% of the total balance of its own available bond.

Article 16 The total balance of the net purchase of a single bond in forward trading by a market participant shall not exceed 100% of the net value of its assets under the fund, the total balance of the net purchase of a China-based branch of a foreign-funded financial institution in the forward trading shall not exceed 100% of its RMB operating fund, the total balance of the net purchase of any other institution in forward trading shall not exceed 100% of its actually contributed capital or net assets.

Article 17 No market participant may manipulate the price of the forward trading of underlying bonds by any means or manipulate the price of the underlying bonds through forward trading.

Article 18 The CFETS and the CCDC shall, according to the requirements and authorization of the People's Bank of China, timely disclose the relevant information about forward trading and settlement to the market, but it shall not disclose any non-public information or mislead the market participants.

Article 19 The CFETS shall be responsible for the routine monitoring of forward trading. The CCDC shall be responsible for the routine monitoring of settlement of forward trading. If the CFETS or the CCDC finds out any unusual transaction or settlement, it shall initiate the corresponding emergency mechanism and shall report the relevant information to the People's Bank of China.

Article 20 Pursuant to *these Provisions*, the CFETS shall formulate forward transaction rules, and the CCDC shall formulate settlement rules.

Article 21 All branches of the People's Bank of China shall strengthen communication with the CFETS and the CCDC and shall conduct routine supervision and inspection over the forward trading of the market participants within their respective jurisdiction.

Article 22 In conducting forward trading, the market participants shall not only comply with *these Provisions*, but also abide by the other relevant provisions governing the China's Inter-bank Bond Market.

Article 23 In the event of breach of contract on a forward transaction, if there is any dispute over the fact of breach of contract or over the liabilities for breach of contract, both parties to the transaction may, through negotiation, apply for arbitration or file a lawsuit with the people's court and they shall serve the final result upon the CFETS or the CCDC no later than 12:00 am of the working day next to the day when they receive the final result of arbitration and lawsuit. The CFETS or the CCDC shall announce the final result on the same day of its reception.

Article 24 If a market participant or the CFETS or the CCDC violates any of the present Provisions, it shall be punished by the People's Bank of China in accordance with Article 46 of the *Law of the People's Republic of China on the People's Bank of China*.

Article 25 The People's Bank of China may, in light of the development of forward trading, make timely revisions to Articles 11, 14, 15 and 16 of the present Provisions.

Article 26 The power to interpret these Provisions shall remain with the People's Bank of China.

Article 27 These Provisions shall be implemented as of June 15, 2005.