

PBC's Press Interview on Participation in the Inter-bank Bond Market for Foreign Institutional Investors

To further promote the opening of the inter-bank bond market, and facilitate foreign institutional investors to invest in the inter-bank bond market, the People's Bank of China (PBC) issued the People's Bank of China Announcement [2016] No. 3 (hereinafter referred to as the "Announcement"), for introducing more qualified foreign institutional investors, removing the investment quota restrictions, and simplifying the management process. Recently, the State Administration of Foreign Exchange (SAFE) issued the notice on matters related to foreign exchange management for investment made by foreign institutional investors in the inter-bank bond market, the PBC Shanghai Head Office issued the implementing rules on registration management, and relevant intermediaries issued the corresponding operational guidelines. Relevant persons in the PBC give answers to press's questions concerning the investment in the inter-bank bond market by foreign institutional investors.

1. What is the background of releasing this Announcement and relevant provisions?

A: The reform and development of China's bond market has achieved good results. China now is the world's third largest bond market, with a wide range of investors and a full spectrum of products, including government bond, policy financial bond, financial bond, corporate credit bond, etc. Meanwhile, with the wider use of RMB in cross-border business, China's bond market is accelerating the pace of opening up. Since 2010, the PBC has allowed eligible foreign central banks or monetary authorities, sovereign wealth funds, international financial organizations, overseas RMB clearing banks and participating banks, foreign insurance agencies, RQFII and QFII to invest in the inter-bank bond market. In July 2015, the PBC has introduced a set of more convenient policies for foreign central banks and likes (foreign central

banks or monetary authorities, international financial organizations, and sovereign wealth funds) to enter the inter-bank market. Based on the past successful attempts, the PBC now issues *the Announcement* to facilitate more types of foreign institutional investors to legally invest in the inter-bank bond market.

2. According to the Announcement, what kinds of foreign institutional investors are allowed to enter the inter-bank bond market? Is there an investment limit?

A: Financial institutions such as commercial banks, insurance companies, securities companies, fund management companies and other asset management institutions, which are legally incorporated outside the People's Republic of China, investment portfolios issued by the above-mentioned financial institutions and other mid- and long-term institutional investors approved by the PBC, such as pension funds, charity funds, donation funds, are allowed to invest in the inter-bank bond market in accordance with relevant provisions of the Announcement. QFIIs can decide their own investment size and there is no investment limit. At the registration stage, foreign institutional investors shall provide authentic and accurate information such as the scale of the investment according to their own situations.

3. What channels can QFIIs obtain information about settlement agents in the inter-bank bond market?

A: QFIIs can find the list of eligible settlement agents in the inter-bank bond market on the official websites of intermediaries, including the PBC Shanghai Head Office, the National Association of Financial Market Institutional Investors (NAFMII); the National inter-bank Funding Center (CFETS), the China Central Depository & Clearing Co., Ltd. (CCDC) and the Shanghai Clearing House. Since 2010, a large number of settlement agents have been entrusted to provide agent trading and settlement services for foreign institutional investors.

4. Whether QFIIs are allowed to remit in foreign currency and convert into local currency for investment in the inter-bank bond market, and whether the investment proceeds can be converted into foreign currency and then remitted out? Whether they can participate in transactions of the inter-bank foreign exchange market?

A: The capital fund remitted in by QFIIs for investment in the inter-bank bond market can either be in RMB or in foreign currencies; as for outbound remittance, both RMB and foreign currency are allowable and the currency mix of outward remittance shall be basically consistent with the local/foreign currency ratio of inbound remittance.

The inbound and outbound remittance, FX purchase and settlement procedures shall follow relevant provisions of the PBC and the SAFE.

According to the People's Bank of China Announcement[2015] No. 31, foreign central bank institutions (foreign central banks and monetary authorities, international financial organizations, and sovereign wealth funds) can access the inter-bank foreign exchange market in either one or many of the following three ways (i) the PBC agency, (ii) member agency of the inter-bank foreign exchange market and (iii) direct membership of the China's inter-bank foreign exchange market, for the purpose of carrying out various types of foreign exchange transactions, such as spot, forward, swap and options. Overseas RMB clearing banks and eligible overseas participating banks for RMB purchase and sell business can also get access to the inter-bank foreign exchange market and do all kinds of foreign exchange transactions. At present, other foreign institutional investors can not directly enter the inter-bank foreign exchange market. In the future, the PBC will continue to study and promote the opening up of the foreign exchange market, and enlarge the scope of institutions for entering the inter-bank foreign exchange market step by step to better meet the needs of market participants.

5. What management measures will the PBC take?

A: To further promote the steady and healthy development of the bond market, the PBC will improve the management in the following aspects:

First, regulate the registration management. If the investment capital remitted in is less than 50% of the proposed amount filed by foreign institutional investors within 9 months after the completion of the registration, they are required to submit the proposed investment scale again.

Second, clarify the capital exchange management. Foreign institutional investors are required to go through foreign exchange registration process according to relevant regulations, there are no limits on the inbound and outbound remittance of funds, but the currency mix of outbound remittance shall be basically consistent with the local/foreign currency ratio of inbound remittance, within a range of 10%.

Third, strengthen concurrent and post-event monitoring. It is essential to strengthen daily monitoring of the investment behaviors of foreign investors and the abnormal large-value RMB cross-border flows and urge the settlement agents to earnestly fulfill the genuine review and information reporting obligations.

6. What types of transactions can be carried out by QFIIs in the inter-bank bond market?

A: All kinds of foreign investors can carry out spot transactions in the inter-bank bond market, and can conduct bond lending, bond forward, forward rate agreements and interest rate swaps based on hedging demands. Overseas RMB clearing banks and participating banks can also carry out bond repurchase in the inter-bank bond market. The PBC will allow other foreign institutional investors to carry out bond repurchase, based on market situations.

7. How to understand the “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”?

A: After finishing the registration and account-opening procedures, QFIIs and RQFIIs can carry out investment in the inter-bank bond market. Their investment limit, proportion, FX and other related matters should comply with the current QFII/RQFII provisions.

8. How do QFIIs open a RMB special deposit account?

A: QFIIs may, in accordance with the *Administrative Measures for RMB Bank Settlement Accounts* (PBC Decree [2003] No. 5), the *Administrative Measures for RMB Bank Settlement Accounts of Foreign Institutions* (PBC Document[2010]No. 249) and the *Circular of the PBC on Relevant Issues Concerning the Opening and Use of RMB Bank Settlement Accounts of Foreign Institutions* (PBC Document [2012]No. 183), open RMB special accounts with domestic banks, which shall then be managed as RMB special deposit accounts for the purpose of doing bond settlement. Each foreign institution can only open one RMB special account, and approval documents for opening RMB special account issued by the PBC are required while certificates for opening basic deposit account are not required. Then the account-opening bank shall submit the case to local PBC branches for approval.

9. What are the specific operational procedures for QFIIs to access inter-bank bond market?

A: QFIIs can fill the investment form in accordance with the rules regarding the registration process of foreign institutional investors issued by the PBC Shanghai Head Office, and submit it to the PBC Shanghai Head Office via the settlement agents of the inter-bank bond market. After the completion of the registration, the settlement agents of foreign institutional investors can handle the relevant account-opening and networking procedures. Foreign institutional investors that have already entered the inter-bank bond market do not need to register again, and the original approved investment quota will be the proposed investment scale.

In order to ensure the integrity of the information, foreign institutional investors need to submit the updated materials timely to the PBC Shanghai Head Office in case of any changes.