

Announcement No.1 [2022] of the People's Bank of China

(Measures for the Administration of Bond Lending in the Interbank Bond Market)

To regulate bond lending in the interbank bond market, protect the legitimate rights and interests of market participants, and increase market liquidity, the People's Bank of China (PBC) has formulated the *Measures for the Administration of Bond Lending in the Interbank Bond Market*, which is hereby released and will take effect on July 1, 2022.

Annex: Measures for the Administration of Bond Lending in the Interbank Bond Market

The People's Bank of China

January 30, 2022

Annex

Measures for the Administration of Bond Lending in the Interbank Bond Market

- Article 1** This *Measures* is formulated in accordance with the *Law of the People's Republic of China on the People's Bank of China* and other applicable laws and regulations to regulate bond lending in the interbank bond market, protect the legitimate rights and interests of its participants ("Participants"), and increase market liquidity.
- Article 2** In this *Measures*, "bond lending" refers to the bond financing activity in which the borrower borrows the underlying bonds from the lender with a certain quantity of collaterals and agrees that, on a future date, it will return such bonds in exchange for the collaterals so provided.
- Article 3** A Participant shall be an incorporated financial institution or a branch of a foreign bank in the interbank bond market that shall operate on the principles

of fairness, good faith, and self-assumption of risks and establish the corresponding internal management rules and operating procedures, strong risk management practices, and robust risk prevention mechanism.

A financial institution that engages in bond lending as the manager of an asset management product shall fulfill its fiduciary mandates in an honest and diligent manner. Where the manager is borrowing bonds, the debt relationship shall be clear with unambiguous authorization and accountability mechanisms, and the manager shall strictly fulfill its information disclosure obligations.

Article 4 The underlying bonds in bond lending shall be those traded in the interbank bond market.

Article 5 A bond borrower shall provide the collaterals agreed upon to the bond lender. The market value of such collaterals shall meet the criteria agreed on by the parties throughout the term of the bond lending.

Article 6 The term of bond lending is to be jointly agreed on by the borrower and the lender and shall be no longer than 365 days.

Article 7 A borrower shall promptly refund the lender of any interests paid on the underlying bonds during the term of bond lending.

Article 8 The rate of bond lending fees payable by the borrower to the lender shall be jointly determined by the parties.

Article 9 Bond lending shall be concluded in accordance with the rules of the interbank bond market. Bond lending shall be settled through the bond depository and clearing institutions and custodian banks (collectively “Bond Settlement Service Providers”) recognized by the PBC.

Article 10 A Participant engaging in bond lending shall execute a PBC-approved master agreement for bond lending (“Master Agreement”).

Article 11 Central bond lending refers to the activity in which a Bond Settlement Service Provider, based on the prior agreement with a Participant and pursuant to the latter’s bond lending instructions given through a PBC-approved electronic trading platform (“Trading Platform”), matches such Participant with other Participants in accordance with unified rules to conclude a bond financing transaction when the said Participant has insufficient payable bonds on the bond settlement date. The Bond Settlement Service Provider shall transmit the settlement data to the Trading Platform upon the conclusion of the central bond lending transaction.

The Bond Settlement Service Provider shall determine and publish the scope of bonds lendable in central bond lending as well as the rate of lending fees,

scope of acceptable collaterals, discount rate, and criteria for substitutes. The PBC may require the Bond Settlement Service Provider to evaluate and adjust these parameters based on the needs of macro-prudential regulation.

A Participant, before engaging in central bond lending, shall execute an agreement with the Bond Settlement Service Provider on the management of the collaterals.

Article 12 In the event of a default on bond lending, the borrower and the lender shall handle the default in accordance with the Master Agreement or apply for arbitration or file a lawsuit before a people's court, and shall, before 12:00 p.m. noon of the working day immediately following the day that the default is resolved or an effective arbitral award or judgment is received, send the final result to the Trading Platform and the Bond Settlement Service Provider.

Article 13 Where the balance of the underlying bonds borrowed by a Participant is no less than 20 percent of the total amount of bonds it holds under custody or the balance of a single underlying bond borrowed is no less than 10 percent of the total issue of such bond, the Participant shall report each 5 percentage-point increment and provide the reasons for the increase in writing to the Trading Platform and Bond Settlement Service Provider before 12:00 p.m. noon of the working day immediately following the increase.

The Trading Platform and the Bond Settlement Service Provider shall, in accordance with the rules and authorization of the PBC, promptly disclose to the market relevant information on the lending, including without limitation information on the above scenarios, without divulging any non-public information or misleading the Participants.

Article 14 The self-regulatory organization of the interbank bond market shall draft a Master Agreement for bond lending and file it with the PBC for record.

The Trading Platform and the Bond Settlement Service Provider shall, in accordance with this *Measures*, provide Participants with default resolution as well as safe and efficient electronic trading and settlement services for bond lending, formulate the service rules, and file them with the PBC for record.

Article 15 Trading Platforms and Bond Settlement Service Providers shall each record the transaction, registration, depository, custody, and settlement data for bond lending in a prompt, accurate, and complete manner; establish a robust risk monitoring and early warning system; strengthen the mechanism of data sharing; and report data in accordance with the trade reporting protocols of the interbank bond market. Upon identifying any abnormality, they shall promptly launch the emergency response procedures, report the situation to the PBC, and send a copy of the report to the competent regulatory authorities.

Trading Platforms and Bond Settlement Service Providers shall, within ten working days after the end of each quarter, each submit to the PBC a written report containing an analysis of the bond lending in that quarter.

Article 16 The PBC supervises the Participants of bond lending transactions, the self-regulatory organization of the interbank bond market, Trading Platforms, and Bond Settlement Service Providers as provided by law.

Any entity that violates laws, regulations, this *Measures*, or other applicable provisions is subject to administrative penalties by the PBC in accordance with the *Law of the People's Republic of China on the People's Bank of China* and the *Law of the People's Republic of China on Administrative Penalty*.

Article 17 The self-regulatory organization of the interbank bond market exercises self-regulation of the bond lending market and imposes self-regulatory penalties on the rule-breaking Participants to maintain an orderly market. The self-regulatory organization shall promptly report any major problems to the PBC.

Article 18 The PBC reserves the right to interpret this *Measures*.

Article 19 This *Measures* takes effect on July 1, 2022. The *Provisional Rules on Bond Lending in China's Interbank Bond Market* (Announcement No.15 [2006] of the PBC) expires on the same day.