

Announcement No. 21 [2020] of PBC, Improving the Management of Market Makers for Spot Bond Trading in the Interbank Bond Market

This Announcement on improving the management of market makers for spot bond trading in the interbank bond market is hereby issued in accordance with the *Law of the People's Republic of China on the People's Bank of China* to implement the *Decision of the State Council on Canceling and Devolving Certain Administrative Approvals* (Guofa No. 13 [2020]), ensure a smooth institutional transition following the cancellation of the administrative approval for two-way quote providers in the interbank bond market, strengthen real-time and post-trade management, and promote the sound development of the bond market.

1. In this Announcement, “market makers for spot bond trading” (“market makers”) refer to commercial banks, securities companies, and other domestic financial institutions with legal person status that engage in market making in the interbank bond market. A market maker shall possess strong pricing capabilities, the capital and risk management capabilities commensurate with the market-making activities it intends to engage in, and a business framework and a team of professionals that enable its market-making activities.

“Market making” refers to the act of injecting liquidity to the spot bond market by such means as providing the market with a continuous stream of two-way quotes and responding to requests for quotes.

2. The People's Bank of China (PBC) supervises and administers the market-making activities in the interbank bond market and conducts on-site and off-site inspections on such activities in accordance with relevant regulations.

The National Association of Financial Market Institutional Investors (NAFMII) exercises self-regulation over the market makers in the interbank bond market, impose disciplinary penalties on violations, and regularly evaluate the state of market-making activities and disclose the evaluation results to the market. NAFMII shall improve the evaluation systems and self-regulatory guidelines in accordance with this Announcement and implement them after filing with the PBC.

The National Interbank Funding Center and other trading platforms recognized by the PBC (collectively “trading platforms”) shall strengthen their trading systems and improve information disclosure, trading services, and emergency resolution measures to support and facilitate market making.

3. A trading platform shall sign a market-making agreement with each domestic legal-person financial institution that complies with Section 1 of this Announcement and intends to engage in market making. Domestic legal-person financial institutions may engage in market making as soon as the agreement is signed. Trading platforms shall, in accordance with the requirements of this Announcement, formulate operating guidelines for market-making activities and implement them after filing with the PBC.

Domestic financial institutions that have been engaging in market making in the interbank bond market on a regular or provisional basis before the effective date of this Announcement may continue their market-making activities after signing the market-making agreement with the trading platforms.

4. Market makers are entitled to the following rights:

- (1) Using their market-making performance as an important gauge of their suitability as a member of the underwriting syndicate for treasury bonds or the lead underwriter for the debt financing instruments of non-financial enterprises;
- (2) Using their market-making performance as an important gauge of their suitability as a primary dealer in open market operations;
- (3) Using their market-making performance as an important gauge of their suitability to engage in bond buying and selling.
- (4) Having priority to provide net clearing services for spot bond trading in the interbank bond market;
- (5) Gaining convenient access to trading information provided by trading platforms; and
- (6) Having priority to engage in innovative businesses in the derivatives and other markets.

5. Market makers shall actively maintain the stability of market prices, promote price discovery, and fulfill the following obligations:

- (1) Within the agreed time period, providing two-way quotes on an ongoing basis and actively responding to requests for quotes from market institutions;
- (2) Ensuring that their quotes and bid-ask spreads are reasonable in the context of the market conditions;
- (3) Providing the best market-making prices they can offer; and
- (4) Strictly fulfilling trading obligations.

Bond underwriters are encouraged to make a market in accordance with laws and regulations for the bonds they underwrite.

6. Market makers shall abide by the laws, regulations, and self-regulatory rules of the interbank bond market; properly retain market-making-related requests for quotes and transaction records; fulfill confidentiality obligations; and develop sound internal controls and operating procedures for preventing market-making risks and conflict of interest.

7. Market makers shall observe the principles of fairness, impartiality, and good faith when engage in market making, and shall not:

- (1) Manipulate or otherwise distort the formation of fair market prices;
- (2) Use insider information for decision-making or trading;

- (3) Divulge investor information to a third party;
- (4) Transfer benefits to themselves or stakeholders by misusing market-making information;
- (5) Frequently withdraw or change quotes without bona fide reasons or engage in false trading, thereby disrupting or misleading the market;
- (6) Deliberately provide investors with misleading quotes or recommendations to seek illegitimate gains;
- (7) Refuse to perform a transaction without justifiable cause after a market-making transaction is entered into;
- (8) Collude with other intermediaries such as other market makers or money brokers to seek illegitimate gains; or
- (9) Engage in other acts that disrupt the market or any market-making activities that injure investor interests.

Trading platforms shall conduct front-line monitoring on market-making activities and, in the event of any abnormal situation, shall resolve it in a prompt manner and submit a report to the PBC with a copy sent to NAFMII.

8. NAFMII and trading platforms shall establish a market-making information sharing and exchange mechanism and timely publish, on their official websites, the latest list and detailed information of market makers to facilitate information access by domestic and overseas investors.

9. The PBC provides guidance to NAFMII and trading platforms to continuously improve the incentives and restraints for market makers and enhance the management of market makers.

10. Market makers or any other institutions that violate the provisions of this Announcement shall be penalized by the PBC in accordance with the *Law of the People's Republic of China on the People's Bank of China*.

11. The PBC reserves the right to interpret this Announcement.

12. This Announcement takes effect on April 1, 2021. The *Provisions on the Administration of Market Makers in the National Interbank Bond Market* (Announcement No. 1 [2007] of the PBC) expires on the same date.

The People's Bank of China

December 23, 2020