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The Administrative Rules on Forward Rate Agreement Business is formulated and published herewith by the People's Bank of China to regulate forward rate agreement business, foster risk hedging capability and accelerate interest rate liberalization reform.

The People's Bank of China
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Administrative Rules on Forward Rate Agreement Business

Article 1 The Rules are formulated according to *the Law of the People's Republic of China on the People's Bank of China*, Forward Rate Agreement and administrative regulations with a view to regulating forward rate agreement business.

Article 2 For the purpose of the Rules, forward rate agreement refers to a financial contract under which both parties agree to exchange interests calculated separately by contract interest rate and by reference interest rate based on nominal principal within agreement period in a certain future date. In particular, the buyer of forward rate agreement pays the interest calculated by contract rate, and the seller pays the interest calculated by reference rate.

Article 3 The reference rate of forward rate agreement should be market rate in the inter-bank market regarded as benchmark issued by the National Inter-bank Funding Center (CFETS) upon the authorization of the People's Bank of China (PBC) or the benchmark interest rate issued by the PBC. The specific choice between the two rates can be made by transaction parties.

Article 4 Financial institutions acting as a market maker or settlement agent among participants of China's Inter-bank Bond Market (market participants) are allowed to trade forward rate agreement with other market participants. Other financial institutions are allowed to conduct forward rate agreement transaction with any financial institutions, but non-financial institutions are only allowed to conduct forward rate agreement transaction for hedging purpose with a market maker or settlement agent.

Article 5 In forward rate agreement business, market participants should follow the principle of fair, integrity, and self risk-taking, develop and improve internal operational procedures and risk management systems so

as to effectively prevent possible risks from the forward rate agreement business.

Article 6 *The Master Agreement for Financial Derivatives in the National Inter-bank Market* (The Master Agreement) should be signed by market participants before conducting forward rate agreement transaction. Agreements such as *Single Agreement* and *Terminate Net Value Agreement* in the Master Agreement apply to forward rate agreement transaction. The Master Agreement is stipulated and issued by National Association of Financial Market Institutional Investors (NAFMII) upon the authorization of the PBC.

Article 7 Internal operational procedures and risk management systems should be submitted to the NAFMII and the CFETS for record by financial institutions before conducting forward rate agreement transaction. Internal risk management systems should at least include contents such as risk measurement and monitoring, internal credit approval, information monitoring, risk reporting and internal auditing.

Article 8 Financial institutions acting as market maker or settlement agent should alert potential risks while conducting forward rate agreement transaction with non-financial institutions, but should not fraud or mislead the latter.

Article 9 Forward rate agreement can be reached either through trading system in the CFETS or via telephone and fax.

Any forward rate agreement transaction reached not through trading system in the CFETS should be reported for filing to the CFETS on the following working day.

Article 10 A written transaction contract should be signed between market participants in conducting forward rate agreement transaction. The written transaction contract should include transaction document produced by the trading system in the CFETS, or contracts, correspondence and telegraphs. Elements such as names of transaction

parties, transaction date, nominal principal value, effective and expiry date, settlement date, contract rate, reference rate, settlement method, and dispute resolutions should be covered in the written transaction contract. A supplement contract may be made when necessary.

Article 11 Market participants can, through negotiation, establish contract performance guarantee mechanism in light of counterpart creditworthiness.

Article 12 In case of defaults, with respect to any disputes on default facts or default responsibilities in forward rate agreement, transaction parties can apply for arbitration as agreed in the contract or lodge a lawsuit to the court. The final result of arbitration or lawsuit should be submitted to the NAFMII prior to 12:00 am of the following working day. The NAFMII should make the final result public on the very day of receiving it.

Article 13 The NAFMII shall function efficiently as self-discipline organization, develop self-discipline principles, and guide market participants to conduct forward rate agreement business in a well-managed manner.

Article 14 The CFETS shall draw operational procedures for forward rate agreement business based on the Rules and implement the procedures after filing to the PBC.

Article 15 The CFETS is authorized to monitor forward rate agreement business. Any abnormal transactions shall be reported by the CFETS to the PBC immediately. A written report on forward rate agreement transaction of every month shall be submitted by the CFETS to the PBC within 10 working days in the following month. A same report shall be send to the NAFMII.

Article 16 The CFETS shall release information on forward rate agreement transaction according to administrative rules and authorization

of the PBC, but shall not leak non-public information or mislead market participants.

Article 17 The CFETS shall file relevant information on the forward rate agreement transactions of market participants within the jurisdiction of the PBC's Shanghai Head Office, regional branches, operational offices, sub-branches of capital cities and sub-branches of provincial level, and same information shall be reported to the NAFMII. The branches and offices of the PBC shall strengthen regulation on the forward rate agreement business of market participants within its jurisdiction.

Article 18 Any violation of the Rules by market participants or the CFETS is subject to penalty from the PBC according to Article 46 in the *Law of the People's Republic of China on the People's Bank of China*.

Article 19 *The Rules* shall be interpreted by the PBC.

Article 20 The Rules shall enter into force on November 1, 2007.