

# **Circular of the People's Bank of China on Issues Concerning RMB Interest Rate Swap**

PBC Document [2008] No. 18

To Shanghai Head Office, all regional branches, operations offices and central sub-branches in provincial capitals, central sub-branches in deputy provincial cities of the People's Bank of China; all policy banks, state-owned commercial banks, joint stock banks, the National Association of Financial Market Institutional Investors, and the National Inter-bank Funding Center:

In order to promote further development of China's financial derivatives market, deepen the market risk prevention function, and facilitate the process of interest rate liberalization, on the basis of the overall experience of pilot work on RMB interest rate swaps and 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, the Circular sets out issues concerning the development of RMB interest rate swap as follows:

I. For the purpose of the Circular, RMB interest rate swaps (hereinafter referred to as "interest rate swaps") refer to a financial contract under which the parties to the transaction agree, within a specific future period, to calculate and swap the interests on the basis of the RMB principal and interest rates agreed to.

The reference interest rate for interest rate swaps shall be the market interest rate which is with the property of a benchmark rate in the inter-bank market published by the National Inter-bank Funding Center (hereinafter referred to as the "CFETS") or other institutions with the authorization of the People's Bank of China or benchmark interest rates published by the People's Bank of China.

II. Among participants in the national inter-bank market (hereinafter referred to as "market participants"), financial institutions qualified for

market making or settlement agency business may conduct interest rate swap transactions with all other market participants; other financial institutions may conduct such transactions with all financial institutions on the basis of their own requirements; non-financial institutions may only conduct interest rate swaps for hedging purpose with financial institutions qualified for market making or settlement agency business.

III. Market participants shall follow the principles of impartiality, good faith and self risk-taking, and shall establish and improve corresponding internal operating rules and risk management systems to effectively guard against the potential risks arising from interest rate swap transactions.

A financial institution shall, prior to conducting interest rate swap transactions, submit its internal operating rules and risk management systems for interest rate swap transactions to the National Association of Financial Market Institutional Investors (hereinafter referred to as the "NAFMII") and CFETS for record filing. The internal risk management systems shall at least include arrangements for risk measurement and monitoring, internal authorization and credit, information monitoring and management, risk reporting and internal audit, etc.

IV. To engage in interest rate swap transactions, market participants shall sign the *Master Agreement on Financial Derivative Transactions in the China's Inter-bank Market* formulated and issued by the NAFMII under the authorization of the People's Bank of China. The provisions regarding standalone agreement and net termination value as specified in the Master Agreement shall apply to interest rate swap transactions.

V. Where a financial institution that is qualified for market making or settlement agency business in inter-bank bond market conducts interest rate swap transactions with non-financial institutions, the financial institution shall remind the non-financial institutions of the potential risks in such transactions and shall not defraud or mislead the non-financial institutions.

VI. Interest rate swap transactions may be carried out through the trading system of CFETS or by telephone, facsimile or other means. Where the interest rate swap transactions are not carried out through the trading system of CFETS, the financial institution shall submit the details of the interest rate swap transaction to CFETS for record filing by 12:00 on the working day following the conclusion of the transaction.

VII. Market participants shall sign a written transaction contract when they carry out interest rate swap transactions; the written transaction contract shall include deal ticket generated by the trading system of CFETS or written contracts, correspondence, digital data messages, etc. A supplementary contract may be concluded if both parties consider it necessary.

VIII. Financial institutions qualified for market making or settlement agency business in the inter-bank bond market may give bilateral quotations for interest rate swap transactions through the trading system of CFETS; bilateral quotation spreads shall be within reasonable market bounds.

IX. In the event of any breach of contract in an interest rate swap transaction, either trading party may apply for arbitration or institute a lawsuit with the People's Court according to the terms of the relevant agreement, and shall, send the final results to NAFMII before 12:00 on the following working day upon the receipt of the arbitration or lawsuit results, and copy the same to CFETS. The NAFMII shall make a public announcement on the day it receives the final result.

X. The NAFMII shall strengthen the self-disciplinary management arrangements for interest rate swap transactions, formulate and optimize rules on self-disciplinary management, regulate conducts in interest rate swap transactions and information disclosure, maintain an orderly market and protect the lawful rights and interests of participants.

XI. CFETS shall formulate operational procedures on engaging in interest rate swap transactions and implement such procedures after submitting the same to the People's Bank of China for record filing.

CFETS shall be responsible for the daily monitoring of interest rate swap transactions and shall report to the People's Bank of China when it discovers any abnormal transactions and notify the NAFMII at the same time. CFETS should, within 10 working days after each month ends, submit a written report on the interest rate swap transactions occurred in last month to the People's Bank of China, and file a copy of the report with the NAFMII. CFETS shall, in accordance with relevant provisions, release the information relevant to interest rate swap transactions in a timely manner but shall not divulge any non-public information or mislead market participants.

XII. CFETS shall regularly provide Shanghai Head Office, all regional branches, operations offices, central sub-branches in provincial capitals and central sub-branches in deputy provincial cities of the People's Bank of China with information relevant to interest rate swap transactions conducted by market participants within their jurisdiction. All branches of the People's Bank of China shall strengthen their daily administration of interest rate swap transactions conducted by market participants within their jurisdiction.

The *Circular* shall be implemented 30 days after the date of promulgation. The *Circular of the People's Bank of China on Issues Concerning the Pilot Program of RMB Interest Rate Swap Business* (PBC Document [2006] No. 27) shall be repealed simultaneously.

People's Bank of China  
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