

## **The People's Bank of China announcement [2006] No. 15**

In order to regulate the bond lending business, safeguard the legitimate rights and interests of market participants, improve the market liquidity and promote the development of China's bond market, the *Interim Provisions on the Administration of Bond Lending and Borrowing Business in the China's Inter-bank Bond Market*, which are formulated by the People's Bank of China, are hereby promulgated.

People's Bank of China

November 2, 2006

## **Interim Provisions on the Administration of Bond Lending Business in the China's Inter-bank Bond Market**

**Article 1** For the purpose of regulating the bond lending business directly conducted among the participants of China's Inter-bank bond market (hereinafter referred to as “market participants”), safeguarding the legitimate rights and interests of market participants, improving market liquidity and promoting the further development of bond market, these Provisions are formulated 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.

**Article 2** For the purpose of the Provisions, bond lending refers to an act of bond financing in which the bond borrower borrows underlying bonds from the bond lender with certain quantity of bonds as pledge, and at the same time both parties agree that the bond borrower shall return the borrowed bonds and the bond lender shall return the corresponding pledge on a certain day in the future.

**Article 3** All market participants may conduct bond lending business. Market participants shall, in conducting bond lending business, follow the principles of equity, good faith and undertaking risks by themselves, strengthen corresponding management on internal authorization and outside credit extension, establish corresponding internal management system and operational procedure, and improve the risk prevention mechanism.

**Article 4** The underlying bonds in bond lending shall be self-owned bonds by the bond lender and may be traded and circulated in China's Inter-bank bond market.

**Article 5** The term of bond lending shall be determined by both parties of the lending through negotiation and be up to 365 days.

**Article 6** In case of the payment of interest on the underlying bonds during the bond lending period, the bond borrower shall return the

interest of the underlying bonds to the bond lender in a timely manner.

**Article 7** The receiver of bond lending shall pay fees for bond lending to the provider, the charging rates shall be determined by both parties through negotiation.

**Article 8** In conducting bond lending business, a market participant may conclude a deal through the trading system of the National Inter-bank Funding Center (hereinafter referred to as the “CFETS”) or through telephone, fax and other means. Where the bond lending business is not conducted through the trading system of CFETS, both parties of the lending shall file a record with the local branch of the People's Bank of China on the day when the deal is concluded, and at the same time, send a copy to CFETS. China Central Depository & Clearing Co. Ltd. (hereinafter referred to as “CCDC”) shall be responsible for the settlement of bond lending. Both parties of the lending shall send settlement instruction to CCDC on the day when the deal is concluded.

**Article 9** In conducting bond lending, market participants shall conclude written lending contract for each deal. The lending contract shall specify the name and quantity of the underlying bond, name and quantity of the pledged bond, term of the bond lending, fees for bond lending, replacement of pledged bond, payment of interest on the borrowed bonds during the lending period, the solution of dispute, etc.

**Article 10** In conducting bond lending business by market participants, the bond borrower shall provide bonds of full value to the bond lender as pledge, and the pledged bonds shall be self-owned bonds which are entrusted to CCDC for custody.

**Article 11** The delivery of bond lending shall be conducted with underlying bonds, but at maturity, it may also be delivered in cash upon the negotiation and consent of both parties of the lending.

**Article 12** Where the balance received by a single institution from bond lending exceeds 30% (including 30%) of the total amount of its

self-owned bonds under custody or since the balance received from a single bond starts to exceed 15% (including 15%) of the quantity issued of this bond, where every five percentage points are increased, this institution shall sent written reports to CFETS and CCDC simultaneously and explain the reasons.

**Article 13** Where there is any breach of contract in bond lending, both parties of the lending may apply for arbitration or bring lawsuit at the people's court according to the stipulations in the contract, and shall serve the final result on CFETS and CCDC before 12:00 of the next working day since the receipt of the final result of arbitration or litigation, CFETS and CCDC shall circulate a public notice thereon on the day when the final result is received.

**Article 14** CFETS and CCDC shall provide trading and settlement services for market participants to conduct bond lending business according to the provisions and authorizations of the People's Bank of China, formulate corresponding rules on the trading and settlement of bond lending in accordance with these Provisions and implement the rules after reporting them to the People's Bank of China for the record.

**Article 15** CFETS and CCDC shall disclose the relevant information on bond lending to market participants in a timely manner according to the provisions and authorizations of the People's Bank of China, but may not disclose non-public information or mislead the market participants.

**Article 16** CFETS and CCDC shall establish and improve the corresponding risk monitoring system and warning indicator system, while CFETS shall monitor bond lending trading and CCDC shall monitor bond lending settlement both on a day-to-day basis, they shall initiate the emergency mechanism where any unusual circumstance is found and report to the People's Bank of China. CFETS and CCDC shall submit the written report on the analysis of operation situation of bond lending business of the quarter within 10 working days upon the end of each quarter.

**Article 17** Branches of the People's Bank of China shall strengthen communication with CFETS and CCDC, and conduct daily supervision and management on the bond lending business conducted by market participants within jurisdiction.

**Article 18** Where a market participant or CFETS or CCDC violates these Provisions, the People's Bank of China shall impose punishment in accordance with the provision of Article 46 of the *Law of the People's Republic of China on the People's Bank of China*.

**Article 19** The People's Bank of China shall be responsible for the interpretation of these Provisions.

**Article 20** *This Interim Provisions* shall come into force as of November 20, 2006.