

The People's Bank of China Announcement [2013] No. 12

In order to further improve efficiency, guard against risks and promote the healthy and sound development of the inter-bank bond market, this Announcement is hereby made with respect to further reinforcement of the delivery versus payment (DVP) settlement requirements of bond transactions in the inter-bank bond market in accordance with the *Administrative Measures for Bond Trading in the China's Inter-bank Bond Market* (PBC Decree [2000] No.2), *Administrative Measures for the Registration, Depository and Settlement of Bonds in the Inter-bank Bond Market* (PBC Decree [2009] No.1) and other relevant regulations:

1. For the purpose of this Announcement, delivery versus payment, or DVP for short, means a type of settlement whereby bond delivery and cash payment, on the settlement date designated by the bond trading parties after the bond trade is concluded, are made simultaneously and conditional on each other,.
2. Except as otherwise stipulated by PBC, for bond trading conducted by participants in the China's Inter-bank bond market (hereinafter referred to as market participants), DVP shall be applied to bond and cash settlement.
3. China Central Depository & Clearing Co. Ltd. and Shanghai Clearing House (hereinafter referred to as bond registration, depository and settlement institutions) shall provide market participants with DVP settlement services by connecting their own bond business systems with PBC's High Value Payment System (HVPS).
4. The bond leg of DVP settlement is processed through market participant's bond accounts opened with the bond registration, depository and settlement institutions.

For the cash leg, market participant that has opened accounts in the HVPS shall process cash settlement through its account in the HVPS;

market participant that has no account in the HVPS shall entrust the bond registration, depository and settlement institution with cash settlement.

5. The bond registration, depository and settlement institutions shall conduct the cash leg of DVP settlement through their special clearing accounts in the HVPS, and open cash accounts dedicated to bond settlement under the special settlement accounts for market participants entrusting them with cash settlement.

6. When a market participant having an account in the HVPS conducts DVP settlement, the bond registration, depository and settlement institutions shall, acting as a third party upon the instruction of the market participant, transfer cash to (from) market participant's HVPS account directly after confirming that the bond-delivering party has sufficient bonds frozen, and transfer bonds promptly after confirming that cash settlement is completed.

7. When a market participant that has no account in the HVPS entrusts the bond registration, depository and settlement institutions with cash settlement, if the counterparty has account in the HVPS, the bond registration, depository and settlement institutions shall, acting upon the instruction of the market participant, transfer cash to (from) the special settlement account directly after having confirmed that the bond-delivering party has sufficient bonds frozen (if the market participant is the cash payer, the bond registration, depository and settlement institutions shall also confirm that the dedicated cash account of the market participant has sufficient balance) and conduct relevant accounting treatment for the dedicated cash account of the market participant and, after confirming that the cash settlement is completed, transfer bonds promptly.

If the counterparty also entrusts the bond registration, depository and settlement institutions with cash settlement, the bond registration, depository and settlement institutions shall, acting upon the instruction of the market participant, conduct relevant accounting treatment for the

dedicated cash account after confirming that the bond-delivering party has sufficient bonds frozen and the cash-paying party has sufficient balance in the dedicated cash account and transfer bonds promptly after confirming that the cash settlement is completed.

8. The bond registration, depository and settlement institutions that agree to provide DVP cash settlement services on behalf of market participants shall establish a sound internal control mechanism, specify the duties of relevant positions, standardize operational procedures, and refrain from divulging trade secrets of market participants, unless otherwise provided by laws and regulations.

9. The bond registration, depository and settlement institutions shall observe the following rules when managing dedicated cash accounts:

(1) The dedicated cash account shall be assigned to the bond depository account on a one-to-one basis and used exclusively for DVP cash settlement post bond trading;

(2) The cash in the dedicated cash account are owned and controlled by market participants;

(3) The bond registration, depository and settlement institutions shall not use the cash in the dedicated cash account for any non-designated purposes, unless otherwise provided by laws and regulations;

(4) The bond registration, depository and settlement institutions shall not advance the dedicated cash account any cash;

(5) The dedicated cash account is subject to day-end "zero balance" management. The bond registration, depository and settlement institutions shall arrange for automatic refund of day-end balances of dedicated cash account to ensure zero balance at the end of day; and

(6) The bond registration, depository and settlement institutions shall establish a dedicated cash account inquiry mechanism to provide account

inquiry services to market participants that may make real-time inquiries about the dedicated cash account balance by digital means or by telephone.

10. The bond registration, depository and settlement institutions shall strengthen the management of dedicated cash accounts, report the information on dedicated cash accounts for the previous ten-day period in writing to the Operations Office of the PBC within three working days following the end of each ten-day period and report any abnormalities immediately.

11. The bond registration, depository and settlement institutions shall, before providing DVP settlement services for market participants, sign the DVP settlement service agreement with market participants to set out the rights, obligations, liabilities for breach and handling of breach, etc. of both parties.

The bond registration, depository and settlement institutions shall, before acting as the agent of market participants for DVP cash settlement, sign the cash settlement agency agreement with market participants to set out the rights, obligations, liabilities for breach and handling of breach, etc. of both parties.

12. Market participants shall establish and improve internal risk control mechanism, strengthen management of settlement cash positions and standardize internal procedures to prevent settlement risk effectively.

Where the settlement of a bond transaction fails, both parties to the transaction shall submit a written statement bearing their institutional seals to the bond registration, depository and settlement institutions on the next day of settlement, with a carbon copy to the National Association of Financial Market Institutional Investors and the National Inter-Bank Funding Center each.

In case of a settlement failure, parties to the transaction shall, on the next day of the settlement date, submit to the bond depository a written

statement affixed with their official seals, with carbon copies to the National Association of Financial Market Institutional Investors ("NAFMII") and China Foreign Exchange Trade System ("CFETS") .

13. The bond depository shall establish and improve the emergency response mechanism and provide emergency services of DVP settlement to market participants.

14. The bond depository shall conduct daily monitoring of DVP settlement of bond transactions in the inter-bank bond market, and handle any abnormalities detected and report to PBC in a timely manner.

The bond depository shall submit a written report on DVP settlement in the previous quarter to the PBC within five working days after the end of each quarter, with a carbon copy to NAFMII.

15. NAFMII shall strengthen self-discipline management of market participants in DVP settlement to protect the market order and the legitimate rights and interests of market participants.

16. The Business Management Department of PBC is responsible for conducting daily monitoring of the dedicated cash accounts and shall report any retention of fund at the end of day to PBC in a timely manner.

17. CFETS and the bond depository shall formulate the rules for DVP settlement in the inter-bank bond market based on sufficient consultation with market participants in accordance with the announcement, and submit the rules to the PBC for registration prior to implementation.

18. To ensure smooth transition, three months following the issuance of the announcement shall be the transitional period for DVP settlement.

During the transitional period, market participants shall communicate and consult actively with relevant institutions and make business, technical and other preparations so as to adopt the DVP settlement as soon as possible. After the end of the transitional period, CFETS and the bond

depository shall no longer provide settlement and other services for bond transactions that do not adopt DVP settlement, unless otherwise required by the PBC.

19. DVP settlement of bond transactions under the net settlement mechanism for cash bond transactions is subject to relevant existing provisions.

20. The announcement shall be implemented from the date of issuance. Announcement [2008] No. 12 of the People's Bank of China shall be repealed at the same time.

People's Bank of China
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