

Circular of the People's Bank of China on the Relevant Matters concerning the Pilots of RMB Interest Rate Swap Transaction

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The headquarters of the People's Bank of China in Shanghai and all branches and business management departments of the People's Bank of China, central sub-branches of the People's Bank of China in all provincial capital cities, central sub-branches of the People's Bank of China in all deputy provincial capital cities, all policy banks, state-owned commercial banks, joint-stock banks, National Inter-bank Funding Center and China Government Securities Depository Trust & Clearing CO., Ltd.,

For the purpose of diversifying the risk management tools of the national inter-bank bond market investors (hereinafter referred to as the market investors), regulating and directing the RMB interest rate swap transaction, and accelerating the process of interest marketization, hereby notified of the following matters relating to the pilots of RMB interest rate swap transaction:

I. The term "RMB interest rate swap transaction" as mentioned in this Notice refers to a transaction in which both parties agree, within a certain period in the future, to exchange cash flows on a agreed amount of RMB principal, with cash flow of one part calculated on the basis of floating interest rate but the other part on the basis of fixed interest rate.

II. Among the market investors, the commercial banks approved by the relevant regulatory institutions to engage in transactions business of derivatives may, upon authorization of the regulatory institutions, conduct interest rate swap transactions with its clients of deposits and loans, as well as other commercial banks approved to engage in derivatives transactions business, or provide their clients of deposits and loans with interest rate swap transaction service. Other market investors are only allowed to conduct swap transactions hedging for value protection purposes with the commercial banks that related to them due to deposits and loans and are approved to engage in derivatives transactions business .

III. The reference interest rates for swap transactions shall be the market interest rates possessing the benchmark character for the national inter-bank bond market that are announced by the National Inter-bank Funding Center (hereinafter referred to as the NIFC) upon authorization of the People's Bank of China, and the one-year fixed deposit interest rate announced by the People's Bank of China.

IV. When engaging in swap transactions, the market investors shall be aware of the risks and establish and improve a sound risk control system and internal control system so as to prevent the potential risks of the swap transactions indeed.

Before a market investor conducts a swap transaction, it shall submit the rules of the swap transaction risk control system and internal control system to the regulatory institution and simultaneously send a copy to the NIFC.

V. A swap transaction may be conducted through the trading system of the NIFC, or may be conducted by both parties via telephone, fax or other means.

VI. To conduct swap transactions, a market investor shall conclude a written transaction contract for each transaction, in which the transaction elements shall be stipulated. If both parties to transaction believe necessary, they may

enter into a separate agreement to clearly specify the rights and obligations of both parties, circumstances of breach of contract, as well as handling of breach of contract,. The aforesaid agreement and transaction contract constitute a complete contract for the swap transaction.

VII. To conduct a swap transaction, a market investor may, according to the credit status of the opposite party, establish guaranty money or securities. The submission, preservation and disposal of the guaranty money or securities shall be conducted with reference to the forward bond transactions mode.

VIII. After a swap transaction is clinched, both parties to the transaction shall strictly perform the obligations as stipulated in the transaction contract.

IX. A market investor engaging in swap transactions shall, within 3 working days after each period of ten days, report the swap transaction information during the past period of ten days to the NIFC for archival purposes (except the transactions conducted through the trading system of the NIFC). The NIFC shall, according to the provisions and authorization of the People's Bank of China, disclose the relevant information about the swap transactions to the market in a timely manner.

X. In the case of breach of contract concerning a swap transaction, and existing any disputes over the fact of breach of contract or liabilities therefore, both parties to the transaction may, upon negotiation, apply for arbitration or file a lawsuit to the people's court, and shall, no later than 12: 00 noon of the next working day after they received the final result of arbitration or litigation, send the final result to the NIFC, which shall announce it to the general public on the same day when receives it.

XI. The NIFC shall be responsible for the routine monitoring of the swap transactions. If it finds any abnormal transaction information, it shall report it to the People's Bank of China in a timely manner and shall, within 10 working days after the end of each month, report in written form to the NIFC the swap transaction information of the current month.

XII. All branches and sub-branches of the People's Bank of China shall strengthen the communication with the NIFC and shall conduct routine supervision and inspection over swap transactions of the market investors within their respective jurisdiction.

XIII. This Notice shall come into force as of the date of issuance.

The People's Bank of China
January 24, 2006

