Notice of the People's Bank of China and the State Administration of Foreign Exchange on Issuing the *Rules on Funds Invested by Overseas Institutional Investors in China's Bond Market*

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The PBC Shanghai Head Office, branches, operations offices, and central sub-branches in capital cities of provinces (autonomous regions) and sub-provincial cities; SAFE branches and administrative offices in all provinces, autonomous regions, and municipalities directly under the Central Government and the SAFE branches in Shenzhen, Dalian, Qingdao, Xiamen, and Ningbo; the China Foreign Exchange Trade System, China Central Depository & Clearing Co., Ltd., and Shanghai Clearing House; China Development Bank, all policy banks and state-owned commercial banks, Postal Savings Bank of China, and all joint-stock commercial banks:

To support and regulate investment by overseas institutional investors in China's bond market, the People's Bank of China and the State Administration of Foreign Exchange have formulated the *Rules on Funds Invested by Overseas Institutional Investors in China's Bond Market* in accordance with the *Law of the People's Republic of China on the People's Bank of China*, the *Regulations on Foreign Exchange System of the People's Republic of China*, and other relevant laws and regulations. The *Rules* is hereby issued for observance.

Appendix: *Rules on Funds Invested by Overseas Institutional Investors in China's Bond Market*

The People's Bank of China

The State Administration of Foreign Exchange

November 10, 2022

Rules on Funds Invested by Overseas Institutional Investors in China's Bond Market

Article 1 This Rules is made accordance with the *Law of the People's Republic of China on the People's Bank of China*, the *Regulations on Foreign Exchange System of the People's Republic of China*, and other relevant laws and regulations to support and regulate investment by overseas institutional investors in China's bond market.

Article 2 In this Rules, an "overseas institutional investor" refers to any overseas organization that meets the criteria under Announcement No. 4 [2022] of the People's Bank of China ("PBC"), the China Securities Regulatory Commission ("CSRC"), and the State Administration of Foreign Exchange ("SAFE") and directly invests in China's bond market through multi-level custody, settlement agency, or other access channels.

Article 3 In this Rules, "China's bond market" consists of the interbank bond market and stock exchange bond market of the Chinese mainland.

Article 4 Overseas institutional investors may choose the currency to remit into China for investment in China's bond market. Overseas institutional investors investing in China's bond market are encouraged to use the RMB in cross-border payments and receipts and to complete cross-border RMB settlement through the Cross-border Interbank Payment System (CIPS).

Article 5 Domestic custodians ("custodians") and settlement agents of overseas institutional investors shall complete the relevant procedures on behalf of the overseas institutional investors in accordance with this Rules.

Article 6 The PBC, SAFE, and their respective branches carry out supervision, regulation, and inspection in accordance with the law over the accounts, payments and receipts, currency exchange, and other relevant activities related to investment by overseas institutional investors in China's bond market.

Article 7 The SAFE imposes registration requirements on the funds to be invested by overseas institutional investors in China's bond market.

An overseas institutional investor shall, within ten working days after obtaining the investment filing notice for China's bond market or a document of like effect from relevant financial regulatory authorities, appoint its custodian or settlement agent to complete the registration procedures on its behalf with the notice or document through the SAFE Capital Account Information System ("Capital Account Information System").

Article 8 A custodian or settlement agent shall, with the registration certificate issued by the Capital Account Information System, open a dedicated account (in RMB and/or foreign currency) for the overseas institutional investor for investing in China's bond market ("bond market capital account").

A bond market capital account may receive the following payments: principal and relevant taxes and fees (such as taxes and custody, audit, and management fees) remitted into China; proceeds from sale of bonds; principal collected at bonds' maturity; interests; inward transfers from qualified transactions in bonds and FX derivatives; inward transfers from purchase and sale of foreign currencies in China; transfers from another bond market capital account of the same account holder; inward transfers from the dedicated domestic QFII (Qualified Foreign Institutional Investor)/RQFII (RMB Qualified Foreign Institutional Investor) accounts of the same account holder; and other incomes that comply with the rules of the PBC and SAFE.

A bond market capital account may make the following payments: bond purchases and related taxes and fees; remittance of principal and proceeds out of China; outward transfers from qualified transactions in bonds and FX derivatives; outward transfers from purchase and sale of foreign currencies in China; transfers to another bond market capital account of the same account holder; outward transfers to the dedicated domestic QFII/RQFII accounts of the same account holder; and other payments that comply with the rules of the PBC and SAFE.

The funds in bond market capital accounts shall not be used for any purpose other than investing in China's bond market.

Article 9 Any change of key information such as the name of an overseas institutional investor or its choice of custodian or settlement agent shall be registered by the relevant custodian or settlement agent within the Capital Account Information System on behalf of the overseas institutional investor.

Any overseas institutional investor that is to exit China's bond market and has closed the relevant capital accounts shall complete the deregistration procedures through its custodian or settlement agent within 30 working days after such account closure.

Article 10 For any overseas institutional investor, the funds in its dedicated domestic QFII/RQFII accounts and in its bond market capital account may be transferred directly in either direction in China and be invested in domestic securities. Subsequent activities such as trades, and the use and exchange of funds are governed by the rules of the post-transfer access channel.

Article 11 The funds remitted into and out of China by overseas institutional investors for investment in China's bond market shall in principle be of the same currency; arbitrage between the RMB and any foreign currency is prohibited. If an overseas institutional investor remits both RMB and foreign-currency funds into China for investment purposes, the cumulative amount of outward remittance in foreign currency shall not exceed 1.2 times the inward remittance (except in the case of liquidation of investment). This limit can be appropriately relaxed for longer-term investment in China's bond market.

Article 12 Overseas institutional investors may trade RMB/FX derivatives for hedging purposes to manage the FX exposures arising from investment in China's bond market.

Article 13 An overseas banking institutional investor may conduct spot FX purchase or sale and trade FX derivatives through one of the following channels:

(1) Transact directly with the custodian, settlement agent, or other domestic financial institutions as their client; or

(2) Apply to become a member of the China Foreign Exchange Trade System ("CFETS") to trade directly in the interbank FX market; or

(3) Apply to become a member of CFETS and enter into prime brokerage to trade in the interbank FX market

Article 14 An overseas non-banking institutional investor may conduct spot FX purchase or sale and trade FX derivatives through one of the following channels:

(1) Transact directly with the custodian, settlement agent, or other domestic financial institutions as their client; or

(2) Apply to become a member of CFETS and enter into prime brokerage to trade in the interbank FX market.

Article 15 If any overseas institutional investor that chooses the access channel under Article 13(1) or 14(1) of this Rules needs to open a dedicated FX account at a domestic financial institution other than its custodian or settlement agent, it may do so with the registration certificate. Such dedicated FX account is used for such purposes as spot FX purchase and sale, as well as funds settlement, profits/losses management, and margin management for FX derivative transactions, while cross-border payments and receipts shall be conducted through the bond-market capital account.

Article 16 Any overseas institutional investor that intends to trade FX derivatives through the access channel under Article 13(1) or 14(1) of this Rules shall itself or through its custodian or settlement agent file the list of those financial institutions with CFETS in advance. Any adjustment to the list shall likewise be filed with CFETS in advance.

Article 17 Any overseas institutional investor that engages in FX derivative transactions shall observe the following rules:

(1) Its FX derivative exposures shall be appropriately sized in relation to its FX exposures. The FX exposures include principal, interests, and changes in market value of bond investment.

(2) Where FX exposure changes due to a change in bond investment, the overseas institutional investor shall adjust its FX derivative exposures accordingly within five working days in the current month or within the first five working days of the following month.

(3) The overseas institutional investor may freely employ such trading mechanisms as rollover, close-out, and gross or net settlement based on its actual needs for managing its FX risks, and may settle profits/losses in RMB or foreign currencies.

(4) Before conducting its first FX derivative transaction, the overseas institutional investor shall submit to the relevant domestic financial institution or CFETS a written commitment, stating that it will comply with the principles of hedging.

Article 18 When carrying out inward or outward remittances for overseas institutional investors, a custodian or settlement agent shall conduct authenticity and compliance review of the funds flow and duly perform its anti-money laundering and counter-terrorist financing obligations. Overseas institutional investors shall cooperate with custodians and settlement agents in their duty performance and provide them with truthful and complete materials and information.

Article 19 Custodians, settlement agents, and relevant domestic financial institutions shall submit the information and data of overseas institutional investors in accordance with the *Administrative Rules for RMB Bank Settlement Accounts* (Order No. 5 [2003] of the PBC), the *Measures for the Administration of the RMB Cross-Border Payment and Receipt Management Information System* (Yinfa No. 126 [2017]), the *Notice of the General Administration Department of the People's Bank of China on Improving the Interbank Business Data Submission Procedures of the RMB Cross-border Receipt and Payment Information Management System* (Yinbanfa No. 118 [2017]), and other relevant rules.

Overseas institutional investors, custodians, settlement agents, and relevant domestic financial institutions shall submit relevant information and data in accordance with the *Detailed Rules for the Implementation of Balance-of-Payments Statistical Declarations through Banks* (Huifa No. 22 [2022]), the *Guidelines on the Balance-of-Payments Statistical Declarations through Banks (2019)* (Huifa No. 25 [2019]), the *Statistics System of External Financial Assets and Liabilities and Foreign Transactions* (Huifa No. 36 [2021]), the *Circular of the State Administration of Foreign Exchange on Issuing the Specifications for the Collection of Data on the Foreign Exchange Business of Financial Institutions (Version. 1.3)* (Huifa No. 13 [2022]), and other relevant rules.

Article 20 Domestic financial institutions that perform spot FX purchase and sale for overseas institutional investors under Article 13(1) or 14(1) of this Rules shall perform their statistical and reporting obligations to SAFE as if for spot FX purchase and sale for regular customers. Those that do so under Article 13(2), 13(3), or 14(2) of this Rules shall maintain statistics as if for transactions in the interbank FX market.

Domestic financial institutions that carry out FX derivative transactions for overseas institutional investors under Article 13(1) or 14(1) of this Rules shall observe the following rules:

(1) Report the FX derivative transactions of overseas institutional investors on a daily basis in accordance with the rules of CFETS.

(2) Perform the statistical and reporting obligations to SAFE as if for FX derivative business for regular customers.

Overseas institutional investors that trade FX derivatives in the interbank FX market either directly or in prime brokerage shall report such transactions in accordance with the rules of CFETS.

Domestic financial institutions shall meet the relevant regulatory rules if they carry out spot FX purchase or sale or FX derivative business for overseas institutional investors under Article 13(1) or 14(1) of this Rules with the use of a third-party trading system, platform, or facility other than their own trading systems.

Article 21 An overseas institutional investor, a custodian, a settlement agent, or a relevant domestic financial institution shall be subject to punishment by the PBC and SAFE respectively in accordance with the *Law of the People's Republic of China on the People's Bank of China* and the *Regulations on Foreign Exchange System of the People's Republic of China* if it:

(1) violates applicable rules on registration;

(2) violates applicable rules on the purchase, sale, payment, or receipt of foreign currencies or inward or outward remittances;

(3) violates applicable rules on the opening, closure, or use of accounts;

(4) violates applicable rules on FX derivative business;

(5) violates applicable rules on the reporting of information and data, or reports incomplete or false information or data, or provides false materials, data, or proof; or

(6) violates applicable rules on the declaration of balance of payments statistics or the reporting of FX purchase and sale statistics.

Article 22 This Rules applies to overseas central banks and monetary authorities, other official reserves management institutions, international financial organizations, and sovereign wealth funds that invest in China's bond market through custodians or settlement agents (commercial banks).

Article 23 The materials submitted by overseas institutional investors under this Rules shall be prepared in Chinese. Where materials are submitted in both Chinese and another language, the Chinese version prevails.

Article 24 The PBC and SAFE reserve the right to interpret this Rules.

Article 25 This Rules takes effect on January 1, 2023. The *Circular of the State Administration of Foreign Exchange on the Foreign Exchange Account Management for the Investments by Overseas Central Banks and Similar Institutions in the Interbank Market* (Huifa No. 43 [2015]), *Circular of the State Administration of Foreign Exchange on Foreign Exchange Administration for the Investments of Overseas Institutional Investors in the Interbank Bond Market* (Huifa No. 12 [2016]), and *Circular of the State Administration of Foreign Exchange on the Improvement of Foreign Exchange Risk Management by Overseas Institutional Investors in the Interbank Bond Market* (Huifa No. 2 [2020]) will be repealed on that same date.