

## **PBC Official Answered Press Questions on Access of Foreign Central Banks and Similar Institutions to the Inter-bank Foreign Exchange Market**

In order to facilitate participation of foreign central banks and similar institutions (foreign central banks/monetary authorities, international financial institutions, and sovereign wealth funds) in the Chinese inter-bank foreign exchange (FX) market. A PBC official answered press questions related to the access of foreign central banks and similar institutions to the inter-bank foreign exchange market.

1. Q: What trading methods and products are available for foreign central banks and similar institutions after accessing the Chinese inter-bank FX market?

A: Foreign central banks and similar institutions can conduct trading of all traded FX products including spots, forwards, swaps (including FX swaps and cross currency swaps) and options through bilateral or anonymous trading methods.

2. Q: As for the method of using inter-bank FX market members as agent(s) (hereinafter referred to as agent banks), are there any qualification or quantity requirements for the agent banks?

A: All the financial institutions with the inter-bank FX market memberships are automatically qualified as agent banks. Foreign central banks and similar institutions can choose one or more agent banks at the same time. There is no limitation on the number of agent banks.

3. Q: Do the agent banks need to sign an agency agreement with the foreign central banks and similar institutions they represents? Does the PBC have any specific requirements for the agency agreement?

A: In the agent banks method, foreign central banks and similar institutions must sign an agency agreement with the agent bank. The PBC has no specific requirements for the agency agreement. The agency agreement, which can clarify specific arrangements of trading, clearing, settlement and fees, shall be negotiated and determined by both parties. The agency agreement can either be in Chinese or English. A signed original copy of the agency agreement shall be submitted to China Foreign Exchange Trade System (CFETS) for record with the registration form or submitted separately later. If foreign central banks and similar institutions conduct derivatives trading, the two concerning parties need to sign either the NAFMII or the ISDA Master Agreement.

4. Q: If foreign central banks and similar institutions choose to access the inter-bank foreign exchange market by agent banks, do they conduct

trading in the names of themselves or their agent banks? And what is the specific trading mechanism?

A: In the agent banks method, all trades will be conducted in the names of foreign central banks and similar institutions. Foreign central banks and similar institutions shall apply to CFETS for the inter-bank FX market membership and establish credit relationship with their counterparties. The requirements and procedures of the membership application are the same as those of direct accessing the inter-bank FX market. After becoming members, foreign central banks and similar institutions will acquire in the trading system their unique Chinese and English full names and an exclusive institution code, under which several trading accounts are set up and can be assigned to one or more agent banks for conducting trading. Cross-usage between proprietary accounts and agent bank accounts or among accounts operated by different agent banks shall be avoided.

In the agent banks method, foreign central banks and similar institutions need not connect to CFETS trading system after becoming members. Instead, the agent banks will receive deal orders from foreign central banks and similar institutions and use the principals' accounts in the trading system to initiate and conclude deals according to the orders. The agent banks are also allowed to conduct trading with its principals via the inter-bank FX trading system.

5. Q: What are the main differences between accessing the inter-bank FX market by agent banks and participating in the inter-bank FX market directly?

A: In the direct participating method, foreign central banks and similar institutions shall connect to the trading system. All trading, transaction confirmation, clearing and settlement shall be conducted by themselves. In the agent bank method, foreign central banks and similar institutions do not need to connect to the trading system, and the aforesaid procedures can be conducted by agent banks as long as prescribed in the agency agreement.

6. Q: How to conduct clearing and settlement, if foreign central banks and similar institutions choose to participate in the inter-bank FX market by agent banks? And how does the back office confirm the transactions?

A: The foreign central banks and similar institutions can either use their agent banks to do the clearing and settlement of RMB and foreign currencies or conduct them independently. In the bilateral trading method, foreign central banks and similar institutions can clear and settle with their counterparties bilaterally as well as apply for netting clearing and settlement in Shanghai Clearing House. In the anonymous trading method, foreign central banks and similar institutions shall clear and settle through the centralized netting clearing and settlement in Shanghai Clearing

House.

Foreign central banks and similar institutions can either use the post-trading processing platform provided by CFETS to confirm the concluded trades with counterparties' back offices or use other methods agreed by both parties.

7. Q: In the agent banks method, which kind of fees will be charged?

A: Foreign central banks and similar institutions shall be charged by CFETS with the same criteria of other members, while the agent banks can pay the fees on behalf of them. The agent banks may charge those foreign central banks and similar institutions for a reasonable commission and the specific fee level shall be agreed by mutual consent.

8. Q: How do foreign central banks and similar institutions connect to the inter-bank FX market trading system?

A: Leased line or internet VPN is available to foreign central banks and similar institutions choosing to directly participate in the inter-bank FX market. And there is no need to connect to the trading system for foreign central banks and similar institutions that entrust PBC or use agent banks as the agent(s).