PBC Official Answered Press Questions about Notice on Issues Concerning Investment of Foreign Central Banks, International Financial Institutions and Sovereign Wealth Funds with RMB Funds in the Inter-bank Market

With a view to building a deep and liquid bond market that is more open and transparent, and to enabling the market to play a better role in resources allocation, the People's Bank of China (PBC) recently announced the Notice on Issues Concerning Investment of Foreign Central Banks, International Financial Institutions and Sovereign Wealth Funds with RMB Funds in the Inter-bank Market, which introduced a registration system, eliminated quotas for these foreign institutions, expanded the authorized investments to a broad range of interest rate instruments including cash bond, bond repo, securities lending, bond forward, interest rate swaps and forward rate agreement, and allowed these institutions to choose between the PBC and other inter-bank settlement agents. A PBC official concerned answered press questions related to the Notice.

1. In some countries, it is the Ministry of Finance that manages foreign exchange reserve. Does the Notice allow Ministry of Finance to access the market?

A: Yes. Central banks and other official reserve managers can access the market.

2. How to interpret the sentence “Relevant overseas institutional investors shall act as long-term investors”?

A: To promote stable and healthy development of the bond market, the PBC encourages overseas institutional investors to make long-term investments based on their needs for preserving and increasing the value of their assets. However, this is not inconsistent with these institutions making short-term investments and positions adjustment based on their liquidity management needs. The Notice does not prohibit other investment needs. Internationally, central banks and monetary authorities, international financial institutions and sovereign wealth funds are basically long-term investors, and fall into the category of long-term investors on the inter-bank bond market as defined in China; therefore, there are no requirements on holding maturity or minimum holding amount.

3. What does the Notice mean by “The PBC will, in accordance with the reciprocity principle and macro-prudential requirements, regulate trading behavior of relevant overseas institutional investors”?

A: For a long time, the PBC has encouraged relevant overseas institutional investors to invest in China's inter-bank market. The "reciprocity principle" in the Notice does not mean that the PBC presets conditions for relevant overseas institutions. International experiences have also shown that central banks and monetary authorities, international financial institutions and sovereign wealth funds conform to the reciprocity principle and macro-prudential requirements. We welcome these institutions to make investment in China's inter-bank market.

4. What's the concrete procedure for relevant overseas institutional investors to enter the inter-bank market?

A: Relevant overseas institutional investors should first of all fill in the China Inter-bank Market Investment Registration Form attached to the Notice, and send the original copy by courier or through their selected inter-bank market settlement agent to the General Administration Office of the PBC. The PBC will confirm with the applying institution and its settlement agent via email no later than 10 working days. Upon registration, the settlement agent of the overseas institutional investor can file with the PBC Shanghai Head Office for records, open bond account with the central securities depository, and opening trade account with the China Foreign Exchange Trading System.