

**Yinfa No.111 [1997], Notice of PBC on Provisional Regulations on Management of Open
Market Operations and Primary Dealers**

State-Owned commercial banks, China CITIC Industrial Bank, China Everbright Bank, Hua Xia Bank, China Investment Bank, China Merchants Bank, Pudong Development Bank, Fujian Industrial Development Bank, Shenzhen Development Bank, Guangdong Development Bank, China Minsheng Bank, Chengdu Urban Cooperative Bank, Beijing Urban Cooperative Bank, Shanghai Urban Cooperative Bank, Tianjin Urban Cooperative Bank, Chongqing Urban Cooperative Bank, Guangzhou Urban Cooperative Bank, Nanjing Urban Cooperative Bank, Kunming Urban Cooperative Bank, Fuzhou Urban Cooperative Bank, and Zhuhai Urban Cooperative Bank: In order to standardize the open market operations as well as establish and improve the primary dealer system of open market operations, the People's Bank of China has formulated the *Provisional Regulations on Management of Open Market Operations and Primary Dealers*, which are hereby distributed to you for implementation.

The People's Bank of China

March 29, 1997

Provisional Regulations on Management of Open Market Operations and Primary Dealers

Chapter I General Provisions

Article 1 These Regulations have been formulated with a view to ensuring the smooth development of the open market operations, safeguarding the legitimate rights and interests of dealing parties, and promoting the steady development of China's monetary market.

Article 2 The open market operations referred to in these Regulations means the open activity of buying and selling bonds conducted by the People's Bank of China (PBC) in order to achieve the objective of monetary policy.

Article 3 Primary dealers of the open market operations (hereinafter referred to as primary dealers) referred to in the Regulations mean commercial banks, securities companies, and trust investment companies which have been examined by the PBC, and which are qualified for doing bond deals directly with the PBC.

Article 4 The PBC shall take charge of examining and approving matters concerning the determination of, change in or cancellation of the qualification of primary dealers.

Article 5 The Open Market Operation Office (hereinafter referred to as the Operation Office) of the PBC shall take charge of the routine work of the open market operations.

Chapter II Trading in Bonds

Article 6 The categories of bonds for trading refer to policy financial bonds, financing bonds of the central bank, government securities and other kinds of bonds designated by the PBC.

Article 7 The categories of bond trading shall include purchase, sale and repo.

Article 8 In trading bonds with the PBC, primary dealers shall sign relevant agreements with the latter.

Article 9 There shall be seven different terms for repo i.e., 7 days, 14 days, 21 days, 28 days, 2 months, 3 months and 4 months.

Article 10 Bond trading shall normally be conducted by inviting bids, including amount bidding and rate bidding (or price bidding). Specific principles on winning bids shall be formulated by the Operation Office.

Article 11 The liquidation of funds for bond trading shall be handled in accordance with the procedures for accounting examination and calculation formulated by the relevant departments of the PBC.

Article 12 Securities registration, custody and transaction shall all be conducted with the China Central Depository & Clearing Co., Ltd. and shall be handled in accordance with the regulations formulated by the company.

Chapter III Qualifications of Primary Dealers and Verification of These Qualifications

Article 13 Those applying to become primary dealers shall meet the following qualifications:

1. Commercial banks, securities companies and trust and investment companies which have been established as independent legal persons with approval from the PBC.
2. Abiding by national laws and decrees concerning economic affairs and finance, as well as provisions formulated by the PBC regarding the management of the asset-liability ratio.
3. An urban cooperative bank, a securities company and a trust and investment company with registered capital not less than 200million yuan (including the amount of Renminbi converted from their foreign exchange capital).

4. The volume of bond trading by a securities company and a trust and investment company shall constitute a considerable market share, and the companies shall have relatively large agency business and qualified professionals, operate assets of fairly high quality, have relatively strong profitability and sound internal management mechanism.
5. Having the ability and being willing to perform various obligations as specified by Article 4 of the Regulations; and
6. Other conditions prescribed by the PBC.

Article 14 Institutions that have been qualified as "primary dealers of government securities of the People's Republic of China" shall enjoy priority in becoming primary dealers.

Article 15 Any agency that meets the conditions as listed in Article 13 of the Regulations may file an application for becoming a primary dealer to the PBC, send in an application form for the qualification for primary dealers in the open market operations, and submit the following materials:

1. A brief introduction of itself.
2. Business license (copy).
3. Copies of year-end balance sheets that have been audited by certified public accountant firm.
4. The specific department that will participate in the open market operations and the composition of its staff; and
5. Other relevant materials required by the PBC.

Article 16 Any agency that has become a primary dealer following examination and approval shall be issued a "certificate of qualification for primary dealers in the open market operations" and be announced by the PBC.

Chapter IV Rights and Obligations of Primary Dealers

Article 17 Primary dealers shall enjoy the following rights:

1. Direct bond trading with the PBC.
2. Priority in obtaining information on the open market operations released by the PBC, as well as relevant data provided by the Operation Office.
3. Services provided by the PBC and relevant bond registration and settlement departments in such areas as the opening of bank accounts, fund liquidation, securities trust and settlement, and technical support.

4. Taking part in activities including joint meetings of primary dealers, exchanges, symposiums and training of staff held regularly by the PBC.
5. Participation in discussion of rules and systems of the PBC concerning the open market operations.
6. Mutual trading of policy financial bonds and financing bonds of the central bank in line with relevant stipulations of the PBC.
7. Other rights granted by law.

Article 18 Primary dealers shall have the following obligations:

1. Active participation in securities trading. Those that do not participate in trading or bidding or offer quotations in a trading day as stipulated by the Operation Office shall promptly explain its reasons and relevant background.
2. Fulfilment of the trading tasks assigned by the PBC in times of special needs for macro-economic adjustments so as to timely pass around intention of monetary policies. The PBC shall give due consideration to the interests of primary dealers when assigning mandatory trading tasks.
3. Conduction of honest trading with the PBC and offering of reasonable market quotations.
4. Supply of information concerning the fund position, the possession of securities and trading on the secondary securities market, as well as other relevant data.
5. Regular supply of market information and market analytical data to the Operation Office, and timely report of major incidents. And
6. Strict performance of other obligations as specified in relevant provisions on the management of the open market operations.

Chapter V Alteration and Termination of the Qualification of Primary Dealers

Article 19 The PBC shall make annual examination of the qualification of primary dealers. Such examination shall mainly cover the following aspects:

1. Participation in the open market operations.
2. Performance in the bond business in a year.
3. Changes in assets and liabilities as well as losses and profits in a year.
4. Observation of stipulations in the Regulations and other regulations on the management of the open market operations; and
5. Other aspects that call for examination.

The PBC shall announce the result of these examinations.

Article 20 Primary dealers that change their names or merge with others shall go through qualification alteration procedures with the PBC.

Article 21 Those that voluntarily give up their qualification for primary dealers shall go through corresponding procedures with the PBC and shall not, within two years, apply to become primary dealers again.

Article 22 Those that fail to fulfil the trading tasks assigned by the PBC shall have their qualification as primary dealers suspended for one year.

Article 23 Those that involve in serious cases of collaborate manipulating of prices in bond trading shall have their qualifications as primary dealers revoked by the PBC and banned from applying for becoming primary dealers once again for two years.

Article 24 Those that commit other acts in violation of laws and regulations shall be dealt with in accordance with relevant laws and regulations. Moreover, the PBC shall, depending on the seriousness of their cases, suspend their qualification for primary dealers for one year or revoke their qualification for primary dealers.

Article 25 The PBC shall publish the names of those primary dealers whose qualifications have been suspended or cancelled.

Article 26 Those whose qualification for primary dealers have been suspended or revoked shall cease to enjoy various rights granted by relevant provisions on the open market operations, but shall continue to perform the obligations that they have not performed.

Article 27 The qualifications and corresponding rights of those primary dealers whose business licenses have been revoked by departments in charge of them shall terminate automatically.

Chapter VI Rules on Punishment

Article 28 Those failing to submit materials to higher authorities in accordance with provisions or providing fraudulent materials shall be given a warning.

Article 29 Those that fail to strike deals or offer quotations for three successive trading days in a year without reporting to higher authorities shall be criticized in the form of a circular.

Article 30 Those that violate other provisions concerning the open market operations shall be dealt with in accordance with relevant provisions. Moreover, the PBC shall, depending on the seriousness of their cases, impose upon them fines ranging from 5,000 yuan to 30,000 yuan.

Chapter VII Supplementary Articles

Article 31 The PBC shall interpret and revise these Regulations.

Article 32 These Regulations shall come into force on the date of promulgation.