

**Yinfa No. 240 [1997], Notice of the People's Bank of China for All Commercial Banks' Ceasing of Securities Repurchase and Cash Bond Transactions on Stock Exchanges**

Branches of the People's Bank of China (PBC) in all provinces, autonomous regions and municipalities directly under the Central Government, and Shenzhen Special Economic Zone; all state-owned commercial banks, other commercial banks, and urban cooperative banks; and the Shanghai Stock Exchange, the Shenzhen Stock Exchange, China Central Depository & Clearing Co., Ltd., and China Foreign Exchange Trade System:

For the purposes of regulating the development of the treasury bonds repurchase market, prohibiting the illegal inflow of bank funds into the stock market, and effectively guaranteeing the stable operation of the financial industry, according to the spirit of *Document No. 45 [1996] of the State Council*, the PBC decides that all wholly state-owned commercial banks, other commercial banks, and urban cooperative banks shall cease the securities repurchase and cash bond transactions on the stock exchanges (the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and securities exchange centers of all provinces, municipalities directly under the Central Government, and autonomous regions, here and below) without exception. You are hereby notified of the relevant matters as follows:

- I. All commercial banks, other commercial banks, and urban cooperative banks must, within the time limit prescribed by the PBC, cease the securities repurchase and cash bond transactions on stock exchanges. Henceforth all commercial banks may not conduct any new securities repurchase or cash bond transaction on any stock exchange.
- II. From the receipt of this Notice, all commercial banks shall organize special forces to quickly check with the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and the stock exchange centers their seats for securities repurchase and cash bond transactions and transactions conducted , and report to the PBC before June 20, 1997 upon verification with the stock exchanges and all securities exchange centers.
- III. The repurchase contracts before June 6, 1997 shall continue to be implemented. From June 6, commercial banks' securities repurchase business shall be handled in the national unified interbank lending network in accordance with the provisions of the PBC.
- IV. All securities lending, securities leasing, and other short-selling transactions are prohibited. For short-selling transactions that have been conducted between a commercial bank and other members

of the exchanges and special seats for treasury bonds, the short-selling interest rates shall be negotiated by both parties with reference to the repo rate of the same grade, and the agreements shall be terminated by June 30, 1997.

**V.** All financial institutions are prohibited from misappropriating securities held on behalf of clients for repurchase, cash bond transaction or any other transaction, and embezzling securities held on behalf of clients for mortgage. The losses caused by the commercial banks' misappropriation of clients' securities held on a commission basis for all kinds of transactions and mortgages, among others, shall be borne by the commercial banks on their own without exception. All commercial banks must ensure normal transaction and redemption of clients' securities under custody upon maturity.

**VI.** All commercial banks must open centralized securities custody accounts with China Central Depository & Clearing Co., Ltd. (CCDC) in a unified manner; with respect to securities that are under custody of exchanges, those that are not repurchased must be immediately transferred to CCDC for custody, and those that have been used for repurchase shall be transferred to CCDC for custody after the end of the repurchase agreement. After the securities of a commercial bank are transferred to CCDC for custody, all of its seats and custody accounts on the stock exchange shall be revoked without exception.

**VII.** All securities transactions of commercial banks must be carried out in the name of incorporated institutions and authorized branches, and no unauthorized branches of commercial banks may carry out securities transaction.

**VIII.** All branches of the PBC shall urge the relevant institutions within their jurisdictions to effectively complete the relevant work as soon as possible in accordance with the requirements of this Notice. During the implementation, problems, if any, shall be reported to the Headquarters in a timely manner. Shanghai Branch of the PBC, PBC Branch of Shenzhen Special Economic Zone, and branches of all provinces, municipalities directly under the Central Government, and autonomous regions with securities exchange centers within their jurisdictions shall organize special personnel to urge the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and all securities exchange centers within their jurisdictions to effectively complete the relevant work, and report the implementation by the exchanges and all securities exchange centers to the Headquarters in a timely manner.

The People's Bank of China

June 5, 1997

\*Note: The China Banking Regulatory Commission has announced in the *Announcement of the China Banking Regulatory Commission on Developing, Amending, Repealing, and Not Applying Some Rules and Regulatory Documents* (Issued and went into force on July 3, 2007) that: Banking regulatory authorities shall no longer be governed by this document when performing supervision functions and exercising supervision powers.