NAFMII WEEKLY UPDATE 8 January- 12 January, 2018

Macro & Financial

Market News

Policy Improvements On Cross-border RMB Business to Facilitate Trade and Investment

The People's Bank of China (PBC) recently issued the Notice on Further Improving Policies for Cross-border RMB Business to Facilitate Trade and Investment (hereinafter referred to as the Notice).

The Notice emphasizes the role of cross-border RMB business in "serving the real economy and facilitating trade and investment," and looks to further improve and optimize policies for such business so as to meet reasonable market demands. The main contents are as follows:

First, all cross-border business allowed by the law to be settled with foreign exchange can also be settled with RMB by enterprises. Following the principle of serving the real economy and facilitating trade and investment, banks are encouraged to develop new financial products based on current cross-border RMB business policies, in order to improve their capacity in providing financial services, and meet market players' real and legitimate demands for cross-border RMB business.

Second, to serve the Belt and Road initiative and meet the demands for cross-border RMB settlement in employee compensation, social welfare, and allowance for family remittance in individual accounts, the Notice makes it clear that under the three basic principles for banking business (namely, know your customer, know your customer's business, and customer due diligence), banks can provide individuals with cross-border payment services under other current account items. This will make it easier for domestic individuals to remit their legitimate income from overseas, and vice versa.

Third, to promote green development, the Notice proposes specific rules for cross-border RMB settlement on carbon emission trading by overseas investors. It encourages overseas investors to participate in carbon emission trading in China with RMB.

Fourth, direct RMB investments by overseas investors are made much easier. The Notice further optimizes relevant procedures, eliminates limitations on relevant account opening and payments, and clearly permits banks to provide relevant services to meet enterprises' actual demands following the three basic principles of doing business. The Notice requires banks to ensure the free remittance of RMB profits, dividends, and other investment returns of overseas investors.

Fifth, the RMB funds raised by domestic enterprises through issuing bonds or shares overseas can be transferred back to China whenever necessary, thus simplifying the relevant procedures and daily operations of the enterprises.
PBC News(Currently Available in English)

Answers to Questions from the Press on the Notice of the PBC, CBRC, CSRC and CIRC on Regulating Bond Trading of Market Participants
Recently, the People's Bank of China (PBC), the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC) jointly released the Notice on Regulating Bond Trading of Market Participants (No. [2017] 302 of the PBC, hereinafter referred to as "the Notice"). Officials from the PBC answered the following questions from the press on concerns of bond market participants and different interpretations of the Notice.

1. To whom does the Notice apply?

The Notice applies to relevant qualified domestic institutional investors, asset managers and custodians of unincorporated products in both exchange and over-the-counter trading. It is applicable to spot bond transactions, bond repurchase, bond forwards, bond borrowing/lending and other relevant bond transactions.

2. What are the requirements for the internal control mechanisms of market participants?

The Notice set out standards for internal control mechanisms and risk control indicators of market participants, further emphasized the business divisions and effective duty separation in front-office departments as well as the unified management of middle- and back-office departments, and established requirements for practitioners. In addition, the Notice encourage market participants to implement rational incentive mechanisms and avoid circumstances such as staff outsourcing and office contract-out which may lead to loose management, behavior distortion and excessive speculation.

3. What behaviors are prohibited?

By reviewing relevant requirements in published rules and regulations, the Notice has reiterated relevant prohibitive provisions on market participants, such as prohibition on lending accounts to each other, illegal transfer of interests, insider trading, market manipulation and circumvention of internal control and supervision.

4. What are measures to regulate bond trading?

The Notice has stressed that market participants should conclude and sign online the business contracts and master agreements on the designated trading platforms. It also stipulate that market participants should follow the principle of focusing on substance rather than form, thus outright repos should be conducted on bonds held temporarily for others or by others to whom they will eventually be sold back or repurchased from and such products should be booked and calculated in accordance to relevant accounting standards and risk control measurements.

5. How to interpret the requirements on leverage ratios?

The Notice has required market participants to keep their bond trading leverage ratios at appropriate levels in the principle of prudent operation. The overall leverage ratio level of a financial institution usually results from a variety of financial products and transactions. Bond repurchase is a commonly used leveraging instrument. The Notice regard the leverage ratio in bond transactions as an indicator for the overall leverage ratio. It requires market participants to notify their relevant financial regulators whenever their leverage ratio of bond transactions exceeds a certain level so as to encourage prudential operation, risk awareness and control of the market participants. PBC News(Currently Available in English)