

Regulatory

PBC leaders answers reporters' questions about releasing Regulations on Automatic Pledge Financing

Developments

The PBC recently released the Regulations on Automatic Pledge Financing, which will come into force on January 29, 2018, and the Provisional Regulations on Automatic Pledge Financing will be revoked at the same time. A PBC leader answered the reporters' questions about the new Regulations.

Q: Please tell us the background and considerations for the new Regulations.

A: Automatic pledge financing means that when depository financial institutions don't have enough capital in their clearing accounts, they automatically pledge their bonds to the central bank for financing and complete the clearing. It is a supportive mechanism of the payment system. The current Provisional Regulations were implemented in 2005, whose provisions concerning the upper limit of financing balance and financing interest rate don't apply to the situation today. The actuating condition for automatic pledge financing is that the financial institution doesn't have enough capital for clearing even if it exhausts all the reserve, which is a high threshold, so it is in nature a clearing facility rather than a liquidity instrument. But as most financing is daylight overdraft and end-of-day payment, it doesn't affect the basic currency and won't affect PBC's management of the liquidity in the banking system.

Q: What are the main differences between the Regulations and the Provisional Regulations?

A: First, **the financing room for member institutions is expanded**. The upper limit of financing balance of development and policy banks, state-owned commercial banks and postal savings banks is raised from 2% of the paid-in capital to 4%, that for national joint-stock banks from 2% to 10%, and that for city commercial banks and other financial institutes from 5% to 15%. Medium- and small-sized depository financial institutions have a small amount of paid-in capital and small scale of reserve, so their financing room is expanded considerably to avoid crowding at times of large-sum clearing. The PBC will adjust relevant parameters for the need of macro-prudential management and in view of the specific situations of member institutions.

Second, **the interest rate of automatic pledge financing is unified**. The interest rate of daylight and over-night automatic pledge financing is determined according to the over-night SLF at the time of the business occurrence. Daylight financing rate is calculated by hour and over-night financing rate by the number of days of outstanding fund, which is aimed to encourage the institutions to shorten the period of capital use. Third, **the scope of pledge bond is enlarged**. The scope of eligible pledge bond is expanded from national debt, central bank bond and policy financial bond to local bond and other securities recognized by the PBC.

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CIRC solicits opinions on Regulations on Insurance Assets and Debts.

On the basis of the five regulatory rules released earlier, the Regulations further clarifies the basic requirements for assets and debts management, the regulatory framework, evaluation methods and corresponding differentiated regulatory measures. As a master document of asset and debt regulation, the Regulations consists of 38 articles under five chapters. The first chapter, General, specifies the purpose of the document, scope of application, definition of asset and debt management, and the structure of the regulatory organization and its duties. The second chapter, Management of Assets and Debts of Insurance Companies, specifies the basic contents and requirements of asset and debt management in insurance companies. The third chapter, Regulatory Evaluation, specifies the methods of evaluation and scoring of asset and debt management, and the standards for overall evaluation. The fourth chapter, Regulatory Measures, specifies the differentiated regulatory measures in accordance with the evaluation results. For instance, for a company whose overall evaluation is D, measures such as limiting the form and proportion of capital use and limiting the sale of products or business scope will be taken. For a company whose capability is evaluated as low, its capability of equity investment, real estate investment and derivative operation won't be registered, and it will be prohibited from substantial stock investment. The fifth chapter, Supplementary Provisions, explains special conditions and the application of existing rules.

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