NAFMII WEEKLY UPDATE

1 July- 5 July, 2019

Regulatory Developments

PBoC conducts a new central bank bills swap

To improve the liquidity of the bank perpetual bond market and support commercial banks to issue perpetual bonds for replenishing their capital, the People's Bank of China (PBoC) conducted another central bank bills swap (CBS) operation valued at RMB 2.5 billion for a period of one year as of June 27, 2019.

The CBS is open to primary dealers for bidding at a fixed rate of 0.25 percent. Among the bid winners are banking institutions like joint-stock banks, city commercial banks and rural commercial banks, as well as non-banking financial institutions like securities companies.

The perpetual bonds swapped by primary dealers include such bonds issued by China Minsheng Banking Corporation Ltd. (CMBC) and Huaxia Bank (HXB) since June as well as the outstanding perpetual bonds issued by Bank of China (BOC) in January. The coupon rate of the central bank bills swapped by PBoC is 2.45 percent, the same as that of the first CBS.

China's central bank conducted CBS operation in a market-based prudential manner with comprehensive consideration of market condition and reasonable demands of the primary dealers.

PBC NEWS

Regulatory Developments

Notice of CBIRC General Office on Matters Concerning Investment in Assembled Funds Trust with Insurance Funds

To further strengthen the management on the insurance institutions investing in assembled funds trust, regulate investment behaviors, and to prevent fund application risks, China Banking and Insurance Regulatory Commission (CBIRC) has amended and issued the *Notice of CBIRC General Office on Matters Concerning Investment in Assembled Funds Trust with Insurance Funds* (referred to as "Notice") in accordance with the *Guiding Opinions on Regulating the Asset Management Business of Financial Institutions*.

Expanded from 8 to 19 articles, the Notice maintains the decision-making procedures and authorization mechanism for insurance institutions to invest in funds trust, qualification of professional responsible person, scope of underlying assets, legal risks, post-investment management, information filing, self-regulation, among others; adjusts such content as the conditions for trust companies, trust credit rating, related transaction and accountability; adds some requirements, such as prohibiting the use of trust as a channel, enhancing trust companies' proactive management responsibility, penetrating through the underlying assets and reinforcing investor appropriateness management, as well as setting investment ratio limit, credit enhancement arrangements and credit enhancement exemption conditions.

The issuance of the Notice is an important move of CBIRC to drive insurance funds to better serve the insurance sector and the real economy. Expanding the scope of cooperation between insurance and trust sectors will help insurance institutions and trust companies create a fair competition environment; specifying the supervision orientation of Removing multi-tier nesting and conduit operations will help restrict unreasonable, non-compliant investment business; specifying that the credit enhancement arrangement for insurance funds to invest in funds trust shall not be made by financial institutions will help smash the implicit guarantee of financial institutions; and specifying the investment scope of underlying assets will help trust companies give full play to their industry advantages in non-standard asset transaction sector, and guide more insurance funds to the real economy. In the meanwhile, the Notice does not apply to the previous investment before its enforcement, which will help maintain the necessary liquidity of institutions and market stability, and ensure smooth transition of the system.

CBRC NEWS
