

**Circular on Issuing the Rules for Anonymous One-click
Trading of Pledged Repo in the Inter-Bank Bond Market**

CFETS [2015] No. 295

Members of the Inter-bank Bond Market,

In order to ensure well-regulated and well-organized anonymous one-click trading of pledged repo in the Inter-bank Bond Market, improve the trading efficiency in the pledged repo market and protect the legitimate rights and interests of Participants, the National Inter-Bank Funding Center formulated the Rules for Anonymous One-click Trading of Pledged Repo in the Inter-bank Bond Market. The Rules are now promulgated for your implementation.

This Circular is hereby given.

Attachment: Rules for Anonymous One-click Trading of Pledged Repo in the Inter-bank Bond Market

National Inter-Bank Funding Center

July 28, 2015

Appendix:

Rules for Anonymous One-click Trading of Pledged Repo in the Inter-bank Bond Market

Chapter I General Provisions

1.1 These Rules are formulated in accordance with the *Measures for the Administration of Bond Trading in the China's Inter-bank Bond Market* (PBC Decree [2000] No. 2) in order to ensure well-regulated and well-organized anonymous one-click trading of pledged repo in the Inter-bank Bond Market, improve the trading efficiency in the pledged repo market and protect the legitimate rights and interests of Participants.

1.2 For the purpose of these Rules, anonymous one-click trading of pledged repo (“Anonymous Repo”) means the Participants quote anonymous repo and reverse repo limit prices during the continuous trading session of each trading day through the Trading System (X-Repo System) of the National Inter-Bank Funding Center (“CFETS”), and the Trading System automatically matches and executes quotes according to credit conditions under the principle of price first or time first, and the Participants may execute unmatched limit quotes through one-click trading. After the repo party to the matchmaking or one-click trade submits the required type of pledged bond at the required discount rate in accordance with the *Rules for Standard Discount Rates for Pledged Securities in the Inter-bank Bond Market* (“Standard Discount Rate Rules”), the Trading System generates the trade ticket for pledged repo.

1.3 Participants in the Anonymous Repo business shall be members of the inter-bank pledged repo market (“Market Members”). CFETS shall grant Participants the access to Anonymous Repo in the Trading System according to trading activities of Market Members in the pledged repo market.

1.4 Participants shall abide by relevant rules issued by CFETS, quote prices and execute trades under the principle of fairness, integrity and

self-discipline and refrain from manipulating or guiding prices in any manner to disturb the market order.

Chapter II Basic Market Rules

2.1 Anonymous Repo is applicable to pledged repo in which interest rate bonds are pledged. Interest rate bonds as referred to in *these Rules* include treasury bonds, central bank bills and policy financial bonds. The types, discount rates and valuation of pledged bonds shall conform to the *Standard Discount Rate Rules* issued by CFETS.

2.2 Anonymous Repo is applicable to overnight, 7-day and 14-day repos, each of which is divided between standard contracts and mini contracts according to the minimum quote threshold and the minimum increments of quote size and trade size. Standard contracts have a minimum quote threshold of RMB100 million and a minimum increment of RMB100 million; mini contracts have a minimum quote threshold of RMB10 million and a minimum increment of RMB10 million. Either standard or mini contracts are subject to a maximum quote size of RMB5 billion. CFETS may launch other types of contracts according to market conditions and make a separate announcement of such launches to market.

2.3 The Trading System is open for trading during 9:00-12:00 and 13:30-16:50 on each trading day. The continuous trading sessions for Anonymous Repo are 10:00-10:10, 11:00-11:10, 14:00-14:10, 15:00-15:10 and 16:00-16:10 on each trading day. The Funding Center may adjust the continuous trading sessions according to market conditions and make a separate announcement of such adjustments to market.

2.4 The clearing speed for all Anonymous Repo trades is T+0 and the settlement method is delivery versus payment (DVP).

Chapter III Credit Authorization and Limit Management

3.1 Participants shall make bilateral credit authorization in the Trading System before the launch of Anonymous Repo.

3.2 Participants may choose to grant credit by relationship or by limit.

3.2.1 Granting credit by relationship means the Participant selects a counterparty in the Trading System to establish a credit relationship according to the repo versus reverse repo direction without setting a specific credit limit. The Trading System permits the Participant to conduct pledged repo transactions with the counterparty with which a credit relationship has been established without imposing any restriction on trade size.

3.2.2 Granting credit by limit means the Participant selects a counterparty in the Trading System to establish a credit relationship according to the repo versus reverse repo direction and set a specific credit limit. The Trading System permits the Participant to conduct pledged repo transactions with the counterparty with which a credit relationship has been established, but the size of each trade shall not exceed the real-time residual credit limit calculated by the Trading System based on the initial credit limit and the deductions for each trade executed.

Deduction = trade value \times risk factor of relevant trade type. The risk factor is set by the Participant at its discretion according to specific trade type, subject to the floor and ceiling set in the Trading System.

Credit limits are divided into daily credit limit and aggregate credit limit. Deductions are made from the daily credit limit on a cumulative basis on each trading day and the daily credit limit will be restored to full on the next trading day. Deductions are made from the aggregate credit limit on a cumulative basis and reversed on the maturity date of trade.

3.3 The Participant shall have at least 30 credit counterparties. If the number of counterparties for which the Participant has granted credit pursuant to Section 3.2 of *these Rules* equals or exceeds 30, the Participant is deemed to have effectively granted credit.

3.4 Real-time effectiveness of credit settings. When the Participant adjusts credit settings, all its valid quotes will be frozen. Frozen quotes need be manually activated after credit setting adjustments are completed.

3.5 Securities companies and fund management companies shall reasonably arrange for the quote size for Anonymous Repo in accordance with the requirements of the People's Bank of China (PBC) on pledged repo trade limits to avoid any trades in excess of limits.

Where securities companies and fund management companies fail to execute trades due to breach of limits, the Trading System will suspend their access to Anonymous Repo and resume it according to circumstances.

Chapter IV User and Account Management

4.1 User management

The Participant may grant front-office or middle- and back-office powers for Anonymous Repo to all or part of its users. The users with front-office powers may quote prices and execute trades, while the users with middle- and back-office powers may make credit settings.

4.2 Management of bond and fund accounts

4.2.1 The Trading System will automatically update relevant account information according to the bond custody account and the fund account set by the Participant in the RMB Trading System of CFETS on the previous day and use by default the preferred custody account set by the Participant in the RMB Trading System and its related DVP fund account for Anonymous Repo trades.

4.2.2 To change information on the default custody account for Anonymous Repo and its related DVP fund account or add any new account information, the Participant may make relevant settings through the middle- and back-office account management interface on the current

day, but the changed or added account information shall be existing account information in the RMB Trading System. The changed or added account is usable for Anonymous Repo on the date of change or addition only. On the next day, the Trading System will still use by default the preferred custody account set by the Participant in the RMB Trading System and its related DVP fund account for Anonymous Repo trades.

4.2.3 To modify the custody account or fund account information after executing the matchmaking or one-click trade, The Participant may apply for emergency service to CFETS in accordance with Chapter VII of these Rules.

Chapter V Quotation and Execution

5.1 Quotation

5.1.1 Participants may, during the continuous trading session, submit the limit price quote for pledged repo in the form of an order through the Trading System. The quote represents the unilateral maximum buy price or unilateral minimum sale price acceptable to the quoting party.

5.1.2 Participants may choose the type of contract in quotation. Quote elements include direction of repo, repo rate and trade value, excluding information on bond pledge.

The trade value shall meet the minimum quote threshold and minimum increment requirements on the specific contract.

The repo rate shall be expressed with the percent (%) symbol and rounded to two decimal places. The Trading System shall set alert and control features for the ceiling and floor of repo rate according to the Shanghai inter-bank offered rate (Shibor). The maximum repo quote of the same user of the Participant for the same contract and the same time point shall not be lower than the minimum reverse repo quote.

A user of the Participant may submit one quote only for a contract at a single time point, in one direction and at one price level. Five different prices may be quoted at a single time point, but there is no limit on the daily total number of quotes submitted by an institution or user.

5.1.3 The Participant may input, save, modify, pre-submit and cancel quotes when the Trading System is open but not in the continuous trading session. After the continuous trading session begins, the Participant may formally submit quotes and modify or cancel any quote submitted but not executed before the end of the continuous trading session and freeze valid quotes or activate frozen quotes as valid quotes. Upon expiration of each continuous trading session, all unexecuted quotes will be automatically frozen and stored in the Trading System. Unexecuted quotes stored in the Trading System may be submitted again when the next continuous trading session starts. All unexecuted quotes will be canceled upon closure of market.

5.1.4 The Participant may combine multiple quotes into a “One Cancel the Other (OCO)” order. When any part of any quote in the OCO order is executed, the remaining quotes will be automatically frozen.

5.2 Execution

5.2.1 All quotes of the Participant during the continuous trading session will be sequenced under the “Price First, Time First” principle.

5.2.2 A newly sent repo quote rate will not be executed unless it is higher than or equal to the lowest reverse repo quote rate in the Trading System and meets the credit requirements of both parties. The execution rate is the reverse repo quote rate and the trading volume is the volume of the smaller of the two quotes. If any portion of the repo quote remains unexecuted, the remaining quote will be executed with the next lowest reverse repo quote, unless the quote cannot be executed or the repo quote is fully executed. If the newly sent repo quote rate is higher than or equal to the lowest reverse repo quote rate in the Trading System but does not

meet the credit requirements of both parties, the newly sent repo quote rate shall be compared with the next lowest reverse repo quote rate, and so on.

5.2.3 A newly sent reverse repo quote rate will not be executed unless it is lower than or equal to the highest repo quote rate in the Trading System and meets the credit requirements of both parties. The execution rate is the repo quote rate and the trading volume is the volume of the smaller of the two quotes. If any portion of the repo quote remains unexecuted, the remaining quote will be executed with the next highest repo quote, unless the quote cannot be executed or the repo quote is fully executed. If the newly sent reverse repo quote rate is lower than or equal to the highest repo quote rate in the Trading System but does not meet the credit requirements of both parties, the newly sent reverse repo quote rate shall be compared with the next highest repo quote rate, and so on.

5.2.4 The Trading System will filter quotes according to credit settings of Participants and check credit requirements of both parties prior to execution.

5.2.5 When a quote is partially executed, the minimum increment of trade value shall be RMB100 million for standard contracts and RMB10 million for mini contracts.

5.2.6 Quotes waiting in the Trading System during the continuous trading session are available for one-click trading by Participants. If the executable size of a quote is larger than zero, the Participant may click on the quoted price and specify the quote size and then submit them. The quote submitted through one-clicking will be executed pursuant to the trading rules set out in Section 5.2. In the case of partial execution, the unexecuted portion of quote will be automatically cancelled.

5.3 Submission of pledged bonds

5.3.1 After the quote is executed, the repo party shall submit pledged bonds within the specified timeframe through the Trading System

according to trade records sent by the Trading System and the acceptable types of pledged bonds and standard discount rates published by the Trading System. The timeframe specified by the Trading System starts from the execution time of each trade. The last submission of pledged bonds shall not be later than the trade time of T+0 transactions in the RMB Trading System.

5.3.2 The amount of the face value of the pledged bond submitted by the repo party that is calculated at the discount rate shall be higher than or equal to the amount of settlement upon maturity. The delisting date of pledged bond shall not be earlier than the settlement date of pledged repo transaction.

5.3.3 The Trading System automatically judges whether the pledged bond submitted by the repo party meets requirements without confirmation by the reverse repo party. The Trading System will generate a complete trade ticket when the Trading System judges that the pledged bond is submitted successfully.

5.4 Trade cancellation and remediation

5.4.1 Once concluded, the trade ticket shall be legally binding upon both parties to trade. The parties to trade shall complete settlement according to the trade ticket.

5.4.2 When the repo party fails to submit the pledged bond within the specified timeframe in accordance with these Rules or the Trading System judges that the pledged bond submitted is unacceptable, both parties to trade shall take appropriate remedial measures through amicable negotiation. Where an agreement is reached through negotiation, the parties to trade may apply to CFETS for emergency service in accordance with Chapter VII of these Rules; where no agreement is reached through such negotiation, the Trading System will automatically cancel the trade at the close of market and the parties to trade shall

conduct subsequent operations in accordance with Section 8.2 of these Rules.

Chapter VI Information Presentation

6.1 The Trading System provides the Participants with matchmaking or one-click trade data on Anonymous Repo. After the repo party submits pledged bonds, the Anonymous Repo trades will be included in the market summary data in the RMB Trading System.

6.2 When the Trading System is open but not in the continuous trading session, the Trading System will display the best repo and reverse repo quote rates, quote sizes and number of quotes for all contracts across the market according to the quotes submitted by Participants. During the continuous trading session, the Trading System will display the best interest rate, quote size and number of quotes and the best five executable rates, executable amounts and number of quotes in the market according to the quotes submitted by Participants and bilateral credit facilities.

Chapter VII Emergency Services

7.1 When the repo party to the matchmaking or one-click trade fails to submit pledged bonds within 30 minutes following trade execution due to any failure of the Trading System, client terminal or communication line, the repo party may apply to CFETS for emergency submission of pledged bonds before 16:30 on the same day after negotiating and reaching a consensus with the reverse repo party.

7.2 When the pledged bonds to be submitted by the repo party do not meet CFETS' requirements on the type and discount rate of pledged bonds but are accepted by the reverse repo party, the repo party may apply to CFETS for emergency submission of pledged bonds before 16:30 on the same day after negotiating and reaching a consensus with the reverse repo party.

7.3 The repo party or reverse repo party that intends to modify the bond custody account or its related DVP fund account after the matchmaking or one-click trade is executed shall submit a timely application for account modification to CFETS after such execution. Emergency modification of account information is not allowed after the repo party submits the pledged bonds.

7.4 The Participant may download the emergency service form from the website www.chinamoney.com.cn, complete the form, affix its common seal or specimen signature to the form and submit it to the floor staff of CFETS as the basis of emergency service.

Chapter VIII Monitoring and Handling of Violations and Breaches

8.1 CFETS shall perform the duty of day-to-day monitoring of Anonymous Repo trades in accordance with relevant regulations of PBC.

8.2 The repo party shall submit eligible pledged bonds according to trade records. Both parties to trade shall perform their respective obligations according to the trade ticket. Under any of the following circumstances, both parties to trade shall amicably negotiate with each other; if such negotiation fails, the following measures shall be taken:

8.2.1 When the repo party fails to provide the pledged bonds according to trade records and time requirements pursuant to these Rules, the repo party shall pay relevant compensation amount to the reverse repo party. $\text{Compensation amount} = \text{trade value} \times (\text{trade interest rate} - \text{weighted closing rate of relevant instrument in pledged repo on current date}) \times 1/365$. Compensation is not required if the calculation result is equal to or lower than zero.

8.2.2 If the securities company or fund management company cannot execute the trade according to trade records due to breach of limit, the limit-breaching party shall pay relevant compensation amount to the counterparty. If the limit-breaching party is the repo party, $\text{compensation amount} = \text{trade value} \times (\text{trade interest rate} - \text{weighted closing rate of$

relevant instrument in pledged repo on current date) $\times 1/365$. If the limit-breaching party is the reverse repo party, compensation amount = trade value \times (weighted closing rate of relevant instrument in pledged repo on current date – trade interest rate) $\times 1/365$. Compensation is not required if the calculation result is equal to or lower than zero.

8.2.3 A party to trade that fails to perform relevant obligations according to the trade ticket can be deemed in default and dealt with in accordance with the *Master Agreement on Bond Repo Trading in China's Inter-bank Market*.

8.3 Under any of the following circumstances, CFETS may take disciplinary actions including interview, written warning, circulation of a notice of criticism and suspension or cancellation of Anonymous Repo rights and, where necessary, report it to PBC:

- (1) Fail to submit eligible pledged bonds;
- (2) Manipulate or guide prices in any manner to disturb the market order;
- (3) Fail to do the trade because of quotation in excess of limit;
- (4) Fail to perform obligations pursuant to the trade ticket; or
- (5) Any other violation of *these Rules*.

Chapter IX Miscellaneous

9.1 In the case of any discrepancies between *these Rules* and the *Rules for Bond Trading in the China's Inter-bank Market* (“Bond Trading Rules”) (ZH.H.J.F. [2010] No. 283), *these Rules* shall prevail. Any matters not covered by *these Rules* are subject to the *Bond Trading Rules*.

9.2 The power to interpret and revise *these Rules* rests with CFETS.

9.3 *These Rules* shall become effective upon issuance.