

**Notice of China Banking Regulatory Commission (CBRC) on Issuing the Guidance for Money Brokerage and Transactions between Financial Institutions**

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All local offices of the CBRC, all policy banks, state-owned commercial banks, shareholding commercial banks and financial asset management companies, the Postal Savings Bank of China, all provincial rural credit unions, and the trust companies, finance companies of enterprise groups and financial leasing companies directly regulated by the CBRC:

The Guidance for Money Brokerage and Transactions between Financial Institutions is now available in print and hereby issued to you for your diligent compliance and implementation.

All local offices of the CBRC shall forward this Notice to all banking institutions within their respective jurisdictions.

August 30, 2007

Guidance for Money Brokerage and Transactions between Financial Institutions

Chapter I General Provisions

**Article 1** In order to standardize the money brokerage business and transactions between financial institutions, maintain the market order and fairness, and improve the operational efficiency of the money brokerage business and transactions, this Guidance has been made in accordance with the Banking Supervision Law of the People's Republic of China, Rules on the Administration of Pilot

Money Brokerage Companies and relevant laws and administrative regulations.

**Article 2** A “broker” as mentioned in this Guidance shall refer to a money brokerage company approved by China Banking Regulatory Commission (the “CBRC”); a “dealer” as mentioned in this Guidance shall refer to a financial institution of any description qualified to engage in transactions between financial institutions on its own capital account or on a capital account of a represented client as approved by the relevant regulatory authorities of China.

**Article 3** The “transaction between financial institutions” shall refer to any of the various transactions conducted between dealers through a broker or directly between dealers, mainly including: foreign exchange market transactions at home and abroad, money market transactions at home and abroad, bond market transactions at home and abroad, derivative product market transactions at home and abroad, and other businesses approved by the relevant regulatory authorities.

**Article 4** This Guidance is aimed at defining the common rules and basic procedural requirements for the business operations and risk management that shall be complied with by the brokers and dealers in the brokerage and transactions between financial institutions.

## Chapter II Common Rules

**Article 5** All transaction staff and related business staff of brokers and dealers shall have corresponding professional ethics and skills, and comply with the procedures set forth in this Guidance in transactions.

**Article 6** The brokers and dealers shall be responsible for the conduct of their transaction staff and related business staff, and ensure them to meet at least the following conditions:

1. Receiving full training and having the professional knowledge and skills necessary for engaging in the business;
2. Having been expressly authorized in operation and truly understanding his or her own and the company's responsibilities;
3. Familiar with and complying with this Guidance and related policies and regulations of relevant regulatory authorities; and

4. Familiar with and correctly executing the relevant rules and code of conduct of the company,

The brokers and dealers shall also make special management rules and take necessary measures to prevent the transaction safety from being affected by the misconduct of any of its transaction staff.

**Article 7** The brokers and dealers shall make relevant management rules to control and eliminate potential and actual conflicts of interest likely to arise from transactions to ensure the fairness on all transaction counterparties.

**Article 8** A broker before providing the brokerage services or a dealer before conducting a transaction with a counterparty shall have knowledge of the counterparty to prevent the transaction from being used for such illegal purposes as money laundering.

**Article 9** Before starting a transaction, a broker and dealer shall have knowledge of all information necessary for the transaction process to avoid mis-conveyance and mistakes in the transaction as possible. The necessary information shall at least include: the identity of a served client, specific type of transaction, special conditions for transaction, etc.

Where no trade secret of any other client is involved, a broker shall fully disclose the major information on a transaction to a relevant transaction client on the market before the conclusion of the transaction.

**Article 10** To provide the brokerage services for a dealer, a broker shall enter into a service agreement with the dealer to define the rights and obligations of both parties. A broker shall take the initiative to inform a dealer that participates in a transaction for the first time of the responsibilities of the broker.

**Article 11** A broker shall strictly keep confidential the information provided by a dealer. When offering suggestions or opinions to a dealer, a broker shall not disclose a trade secret of any other client, and shall prudently convey or review ordinary open information.

**Article 12** A broker shall provide the brokerage services on the principle of fairness and impartialness, and shall not give any preferential treatment to any of the clients involved in a

transaction.

**Article 13** A dealer shall determine on its own the reliability of information provided by a broker, and shall not require a broker to assume any responsibility other than that for the conveyance of identity information and verification of transaction information.

### Chapter III Risk Management and Control Measures

**Article 14** A brokers or dealer shall establish a risk control system and an internal control mechanism for the relevant business to ensure the separation of the front, middle and back offices in the brokerage or transaction business and the effective control over risks at all stages.

**Article 15** Before developing a new product or establish a new business relationship, a broker or dealer shall have knowledge of such information as the basic conditions, business scope and transaction powers of a transaction counterparty, assess the compliance risks and reputational risks likely to be caused by the transaction, and take corresponding control measures, through making detailed assessment rules and procedures. The management board of a broker or dealer shall regularly examine and assess its overall business relationship with a counterparty according to the above rules and procedures.

**Article 16** A dealer shall establish a clear authorization and credit system. This system shall at least include: the ordinary transaction procedures, authorized transaction staff, types of allowed transactions, exposure, position, and credit, confirmation and clearing procedures for a transaction counterparty.

**Article 17** A broker and dealer shall be informed of a list of each other's staff authorized to provide the brokerage services or conduct transactions and business scope, and make a verification before a transaction.

**Article 18** Without the permission of a dealer, a broker shall not disclose or discuss the information on a concluded transaction and information on a transaction still in arrangement, except as otherwise provided for by a law or administrative regulation. Where a broker's headquarters and their branches need to share the confidential market information and sensible information, the managerial staff of the headquarters shall take necessary measures to conduct confidentiality management of it.

**Article 19** Without the consent of the management boards of both parties, a broker and dealer shall not visit each other's transaction rooms. A dealer shall not conduct transactions in a broker's or any other dealer's office. A broker shall not operate business in a place other than its own office.

**Article 20** A broker or dealer shall save the contents of all transactions by such means as setting up a transaction telephone recorder, including the front office transaction conversations, back office transaction confirmation and conveyance of a payment instruction and other instructions, etc., which shall be examined at least once every three months. When recording is made on a new client or counterparty for the first time, a broker or dealer shall inform the opposite party that the conversations in all subsequent transactions shall be recorded.

A broker or dealer shall properly keep and use the recording equipment and medium, and the conversation recordings shall be kept at least for three months. The conversation recordings for a disputed transaction shall be kept until the settlement of the dispute.

**Article 21** A broker or dealer shall not offer or ask a client for any benefit other than the agreed remunerations or fees for the purpose of concluding an transaction. A broker or dealer shall make the relevant management rules according to the requirements of relevant laws and administrative regulations to expressly provide for the reception and gift standards for normal business operations, approval powers and procedures, management and control measures, etc., strictly observe these rules, and conduct regular inspections.

**Article 22** To ensure independency and fairness, a broker shall inform in writing all clients of a list of dealers that are materially affiliated with it.

The “materially affiliated” as mentioned in the preceding paragraph shall mean:

- 1.A broker directly or indirectly holds at least 5% of the shares in a dealer;
- 2.A broker and dealer are directly or indirectly controlled by the same parent company; or
- 3.Any other materially affiliated matter as determined by the CBRC.

**Article 23** In principle, a broker and dealer shall arrange a transaction at the market price, including

the extension of a present contract at the original contractual price. Any special need shall be arranged after being approved by the management boards of both parties, and be subject to the relevant operational procedures as prescribed, so as to ensure the effective monitoring and control by the management board.

**Article 24** Where in a foreign exchange transaction it is likely necessary for a transaction to be transferred to another financial center for the extended transaction after the usual hours for the local transaction, a dealer shall make the relevant rules or provisions to define the types of allowed transactions and the relevant caps for transaction volumes. A broker and dealer shall timely confirm and examine such transactions.

#### Chapter IV Transaction Procedures and Requirements

**Article 25** The usual quotation of a broker and dealer shall be real one, i.e. once a dealer's quotation is accepted by the opposite party, or the quotation is deemed as being accepted when the name of the opposite party is requested, the transaction shall be usually concluded. The quotation shall be indicated with a quantitative unit that is generally adopted on the market. Where the quotation is a virtual one, it only represents an intention, which shall be specifically indicated.

**Article 26** Before concluding a transaction, a dealer shall define the various conditions affecting the validity of a real quotation, such as a real quotation with a credit condition or any other transaction requirement. Where a broker is restricted by any other factor (such as opening hours of another financial center) from concluding a transaction, a dealer shall inform a broker and a potential counterparty of it before the transaction and before the names of the parties to the transaction are disclosed.

**Article 27** Where a dealer offers a real quotation and the identity of a counterparty is acceptable, the transaction shall be conducted at the price quoted in a tradable volume.

**Article 28** A dealer offering a real quotation may specify the time of validity of the real quotation. Otherwise, the quotation shall be deemed as valid only on that very day before a dealer cancels the quotation on its own initiative.

**Article 29** Where a dealer's quotation is a real one with credit restrictions, as long as a name

submitted by a broker is on the credit list preset by the dealer, the dealer shall conclude a transaction at the price quoted with its counterparty. Where the transaction volume of a particular counterparty has exceeded the credit limit granted to it by a dealer, the dealer may refuse the transaction. Where the quotation is a virtual one or the essential transaction elements need to be negotiated one on one, once both parties have accepted all the clauses unconditionally, a dealer shall conclude the transaction at the price quoted. A broker and dealer may set a scope of institutions allowed to participate in the transactions, so that the quotation of the dealer shall be a real one for any institution within this scope and within the credit limit.

**Article 30** Where a broker offers a quotation based on a small transaction volume lower than the market practice or the name of a particular transaction counterparty as required by a dealer, this quotation shall also comply with the basic market rules. A dealer conducting a transaction through a broker on an unfamiliar market shall first inquire of the broker about a usual quotation that is valid on the market. For a small transaction volume lower than the market practice, a dealer shall state it in advance when negotiating a quotation with or offering a quotation to a broker.

**Article 31** A broker and dealer may take necessary measures to avoid, as possible, that a dealer offers an obviously unreasonable transaction quotation to the broker.

**Article 32** A dealer shall inform a broker of any special requirement for a transaction; for some particular financial instruments, a dealer shall also inform a broker of the different prices set for different types of counterparties.

**Article 33** After a transaction is concluded, a broker shall immediately confirm it with all transaction parties orally or in any other manner as agreed upon in advance.

**Article 34** An oral agreement shall have the binding force, and a written confirmation shall be a proof of transaction, but shall not overthrow the orally reached clauses.

At the stage of oral negotiation, all details of a real quotation shall be agreed upon as soon as possible and embodied in the later written confirmation.

**Article 35** Where both transaction parties have not expressly showed an intention to conclude the

transaction, a broker shall not disclose the name of a dealer too early.

**Article 36** On the money loan market, upon the inquiry about the name of a borrower by a lender in a transaction through a broker, the lender shall conduct the transaction at the price quoted with the counterparty. A broker may disclose the name of a lender only after the name of a borrower has been accepted by the lender. A borrower requiring more secure capital may refuse to borrow the capital after knowing the name of the lender.

**Article 37** Where a dealer conducts a transaction on behalf of a third party rather than on its own account, the dealer shall make it clear in conveying the names to a broker, and a broker shall inform the counterparty of the ultimate transaction party, so as to assist all transaction parties in assessing transaction risks.

**Article 38** Where a counterparty is short of a sufficient transaction quota and both parties agree to and may conduct a transaction with a third party, a broker may introduce a third party to conduct a bridge transaction. After the intention to conclude the transaction is made clear, a broker shall exchange the names of all transaction parties as soon as possible, and orally confirm the conclusion of the transaction.

**Article 39** A broker shall set up an independent back office, and, immediately after a transaction is concluded, send a written confirmation of transaction to all transaction parties and remind a dealer of receiving the written confirmation. A written confirmation of transaction shall include the date of transaction, names of all transaction parties, transaction price and volume, manner of delivery, etc. The back office of a broker shall be effectively separated from its front office to prevent the confirmation by the back office staff of the transaction clauses from being interfered with by the front office transaction staff.

**Article 40** A broker shall be usually required to send a written confirmation only once to either of the dealers concluding a transaction. In a more complex derivative transaction, a broker and dealer may make the written confirmation several times as needed, but shall expressly agree on which written confirmation shall prevail. A broker and dealer shall keep all written confirmations of transactions.

**Article 41** After receiving a written confirmation of transaction, a dealer shall immediately verify it,

and if any question, shall immediately inquire of the sender of the confirmation and amend it. Where a written confirmation of transaction is not received on time, a dealer shall timely inquire of the sender of the confirmation.

Where a dealer does not raise any objection within a reasonable period of time after a broker sends a written confirmation of transaction, the dealer shall be deemed as having tacitly agreeing to the entire confirmation.

**Article 42** Where a dealer is unable to conclude a transaction at the specified price for a failure of a broker, the broker shall cause the conclusion of the transaction at the next prime price, and the dealer shall decide on its own whether to conduct the transaction at this price. For any loss caused thereby to the dealer, the broker shall compensate the dealer in a manner such as setoff of commission.

**Article 43** In conducting the repurchase of bonds, transaction of derivative products and other similar businesses through a broker, the dealers shall enter into a master agreement on the relevant business in advance and inform the broker of it.

#### Chapter V Settlement and Brokerage Commission

**Article 44** After a transaction is concluded, a dealer shall conduct settlement on its own according to the written confirmation of transaction provided by a broker.

**Article 45** Without an agreement through prior consultation with a dealer, a broker shall not be responsible for conveying the settlement information.

**Article 46** Where the transaction settlement on an original business day cannot be completed for a statutory cause or a force majeure, the date of transaction settlement shall be extended to the next common business day of both dealers. For any dispute likely to arise from a change of any other transaction condition (such as calculation of a value date) caused thereby, both transaction parties shall include expressly agreed resolution clauses in the written confirmation of transaction in advance.

**Article 47** The commission for the services provided by a broker may be determined freely by a broker and dealer through consultation. A broker shall conduct prior consultation with a dealer on

the details of the brokerage commission, including the commission rate, manner of payment, etc.

Any change of the commission shall be subject to the consent of both parties and expressly agreed on in a written manner. A dealer shall timely pay a broker the commission as agreed upon.

**Article 48** The quotation of a broker in a transaction shall not include the commission.

#### Chapter VI Settlement of Transaction Disputes

**Article 49** Where a transaction dispute arises, all transaction parties shall settle it through full consultation, on the principle of fairness and honesty, according to the relevant laws and administrative regulations, this Guidance or market practices.

A broker shall assist in providing the evidential materials on the relevant transaction.

**Article 50** Except as otherwise agreed upon by all transaction parties, a broker shall bear the burden of proof on whether a certain price is reached for a transaction mediated by it.

**Article 51** Where a dispute cannot be settled through consultation by all transaction parties, the dispute may be settled through arbitration, litigation, etc.

#### Chapter VII Supplementary Provisions

**Article 52** The CBRC shall be responsible for the interpretation of this Guidance.

**Article 53** This Guidance shall be effective as of the date of issuance.