

## Announcement No. 12 [2008] of the People's Bank of China

In order to improve market efficiency, reduce risks related to bond transaction and settlement and promote the healthy development of the bond market, an announcement is made as follows on issues concerning DVP (delivery versus payment) settlement in the inter-bank bond market, in accordance with the Administrative Measures on Bond Trading in the National Inter-bank Bond Market (PBC Decree No. 2 [2000]).

1. DVP in the Announcement refers to a settlement procedure where delivery of purchased securities and payment are made simultaneously on the agreed settlement date after a bond transaction agreement is reached.
2. China Government Bond Depository Trust and Clearing Co., Ltd (hereinafter referred to as the CDC) provides DVP settlement services for participants in the inter-bank bond market through the Central Bond Business System (hereinafter referred to as the Bookkeeping System) and the PBC's Large-Value Payment System (hereinafter refers to the Payment System).
3. Participants in the inter-bank bond market have their purchased bonds settled in DVP terms via their bond custodian accounts in the Bookkeeping System.

Participants who have opened clearing accounts in the Payment System can make DVP settlement directly through those clearing accounts, while participants without such clearing accounts can entrust commercial banks with clearing accounts to perform DVP settlement on their behalf as their clearing agents, or appoint the CDC as their agent.

4. DVP settlement through clearing agents should be made via the agents' clearing accounts in the Payment System.

DVP settlement through CDC should be made via CDC's chartered clearing account in the Payment System. CDC should open special accounts of bond settlement fund for its principals.

5. Where a participant with a clearing account in the Payment System makes DVP settlement, the CDC should transfer fund into or out from its clearing account directly as a third party according to the participant's instructions and in the precondition that there is sufficient bond balance in the bond seller's account and the account is frozen, and the CDC should transfer the bond ownership immediately upon the completion of fund settlement.
6. Where a participant without a clearing account entrusts a clearing agent to receive or make payment, the CDC should transfer fund into or out from the agent's clearing account directly as a third party according to the participant's instructions and in the precondition that there is sufficient bond balance in the bond seller's account and the account is not frozen, and the CDC should transfer the bond ownership immediately upon the completion of fund settlement. The clearing agent should deliver the collected fund to the participant in a timely manner as previously agreed (the participant should pay its clearing agent the amount the latter paid in a timely manner as previously agreed).
7. Where a participant without a clearing account in the Payment System entrusts the CDC to receive or make payment on its behalf and its counter-party does not appoint the CDC as its settlement agent, the CDC should transfer fund into or out from its chartered clearing account directly in the precondition that the bond seller has sufficient bonds and the purchased bonds are frozen (if the principal is the payer, the CDC should make sure that there is sufficient balance in its bond settlement fund account) according to the participants' instructions, and the CDC should conduct bookkeeping of the principal's bond settlement fund account and transfer the bond ownership immediately upon the completion of fund settlement.

If the participant's counter-party also entrusts the CDC to perform DVP fund settlement, the CDC should conduct fund transfer in accordance with the participant's instructions in the precondition that the bond seller has

sufficient bond balance and the sold bonds are frozen and the bond buyer's bond settlement fund account has adequate balance; the CDC should also transfer the bond ownership immediately upon the completion of fund settlement.

8. When entrusted with DVP fund settlement, clearing agents and the CDC should establish a sound internal control mechanism, define job responsibilities, streamline operational process and keep confidential commercial secrets unless otherwise stipulated by law.

9. The CDC should observe the following principles when managing bond settlement fund accounts:

- (1) Bond settlement fund accounts should be opened in the principle of one client one account, and should only be used for DVP settlement.
- (2) Fund in a bond settlement fund account is owned and at the discretion of the participant who opens the account.
- (3) The CDC is forbidden to use fund in the bond settlement fund account for purposes other than DVP settlement, unless otherwise stipulated by laws and regulations.
- (4) The CDC is forbidden to lend to its customer's bond settlement fund account temporarily to make up for the shortage.
- (5) The principle of end-day "zero balance" applies to the management of bond settlement fund accounts. Every day when business is closed, the CDC should automatically transfer the remaining fund in the accounts back to its clients, and no residual fund should be left in the account.
- (6) The CDC should establish an inquiry mechanism to provide inquiry services for participants so that they check their accounts in real time via client terminals, telephone and other channels.

10. The CDC should strengthen the management of bond settlement fund accounts, report in writing the accounts' status in the previous xun (a period of ten days. Every month is divided into three xun, namely from the 1st to the 10th, from the 11th to the 20th, and from the 21st to end-month) within three working days after the previous xun ends to the PBC Operations Office, and report any anomalies in a timely manner.

11. Before providing settlement services, the CDC should sign an agreement on DVP settlement with the participant who entrusts settlement services on the CDC, which specifies the rights and obligations, responsibilities and settlement of breach of contract and other issues. Before providing DVP settlement services to a settlement agent that perform DVP for a participant, the CDC should sign a tripartite agreement with the participant and the settlement agent.

A settlement agent and the CDC, before agreeing to the settlement services, should sign fund settlement agent agreements with the participant who entrusts settlement services on them, which specifies the rights and obligations, responsibilities and settlement of breach of contract and other issues.

12. A participant should establish and improve an internal risk control mechanism, strengthen the management of settlement fund positions, standardize the internal working process, and effectively prevent settlement risks.

13. The CDC should put in place and improve an emergence response mechanism to provide contingency DVP settlement services.

14. The CDC should conduct day-to-day supervision over DVP settlement on the inter-bank bond market, and report in writing the settlement results in the previous month to the PBC within the first five working days each month, as well as anomalies, if there is any.

15. The National Association of Financial Market Institutional Investors should promote self-disciplined management among participants, so as to protect market order and the legitimate rights and interests of participants.

16. The PBC Operations Office is responsible for day-to-day supervision over bond settlement fund accounts, and should report to the PBC in a timely manner if fund is found to be left in the accounts after a trading day closes.

17. The CDC should formulate rules and related agreements on DVP settlement on the inter-bank bond market in accordance with the Announcement after soliciting opinions from participants, and report such rules and agreements to the PBC for filing before actual implementation.

18. The Announcement shall enter into force on August 1, 2008.

The People's Bank of China  
July 3, 2008