

## Appendix

### **Guidelines for Interbank Foreign Exchange Market Makers**

Article 1 To promote the sustainable development of the foreign exchange market, the *Guidelines for Interbank Foreign Exchange Market Makers* (hereinafter referred to as the *Guidelines*) are formulated in accordance with the *Regulations of the People's Republic of China on Foreign Exchange Administration* and the *Interim Provisions for the Administration of the Interbank Foreign Exchange Market* (Yinfa No.423 [1996]).

Article 2 In the *Guidelines*, an interbank foreign exchange market maker is defined as an interbank foreign exchange market member obligated to continuously offer buying and selling prices to members for the transactions between the renminbi and foreign currencies in China's interbank foreign exchange market.

Article 3 Interbank foreign exchange market makers can engage in market-making business in foreign exchange markets such as spot, forward, swap and options markets based on their market-making capabilities.

Article 4 Interbank foreign exchange market makers are entitled to the following lawful rights:

(1) Properly expanding the range of comprehensive position quota limits in foreign exchange settlement and sales for flexible

position management;

(2) Access to stronger support in transaction system, transaction fees, transaction data, etc.

(3) Eligibility for applying to the People's Bank of China (PBC) for the qualification of primary foreign exchange dealer;

(4) Access to policy support for innovative business in the interbank foreign exchange market.

Article 5 Interbank foreign exchange market makers are legally required to perform the following obligations:

(1) They shall continuously offer buying and selling two-way prices for transactions between the renminbi and other major currencies in the interbank foreign exchange market in the given transaction time frame, and the quoted prices should be effective strike prices;

(2) The quoted prices in the interbank foreign exchange market shall be within the fluctuation range stipulated by the PBC for the transaction prices of foreign exchange in the interbank foreign exchange market;

(3) They shall abide by codes of conduct and best practices in relation to the China Foreign Exchange Market Self-Regulatory Framework (SRF) and play a leading role in carrying out regulated transactions in the foreign exchange market. They shall trade in good faith and shall not engage in fraudulent transactions or manipulate market prices via illegal or improper means;

(4) They shall abide by administrative regulations and requirements on comprehensive positions in foreign exchange settlement and sales;

(5) They shall help customers raise their awareness of risk-neutral in connection with exchange rates. They shall not mislead or induce customer expectations in marketing;

(6) They shall promptly report foreign exchange market performance and market-making outcomes in accordance with the requirements of the State Administration of Foreign Exchange (SAFE) and also report them to the PBC.

Article 6 An interbank foreign exchange market maker needs to meet the following conditions:

(1) Ranking high in the total score that combines the objective indicator score calculated in accordance with the *Evaluation Methods for the Interbank Foreign Exchange Market* and the SAFE score in the prior evaluation cycle. The total score embodies a member's overall market-making performance in spot, forward, swap and options markets;

(2) Complying with the relevant regulations of the PBC and the SAFE, and its behaviors in the foreign exchange market in accordance with the requirements of the SRF. Any member will be automatically disqualified for evaluation if it falls into class C once in the foreign exchange administration and prudential operation assessment or falls far below standards once in the assessment by the

SRF in the prior evaluation cycle. Other members will substitute the member according to their rankings.

Article 7 Any associate member can apply for becoming a trial market maker depending on their willingness, to provide quoting services for one or more foreign exchange products on spot, forward, swap and options markets. Trial market makers will be subject to the administration by the China Foreign Exchange Trade System (CFETS) in market access/exit and day-to-day activities.

Article 8 The SAFE will organize market maker evaluation every two years and produce rankings on market makers and trial market makers. The *Evaluation Methods for the Interbank Foreign Exchange Market* contemporary with the evaluation cycle will be used as the evaluation criteria. The first evaluation cycle was 2019-2020.

Article 9 At the end of the evaluation cycle, the SAFE will determine and publish the list of market makers based on the evaluation results and make a carbon copy of it to the PBC and the CFETS. While publishing the outcomes, the SAFE will adjust the quota of comprehensive positions in foreign exchange settlement and sales for market makers that are newly allowed to enter or exit the market.

Article 10 In case of abandonment of the market marker qualification, major shareholding changes, qualification inheritance of foreign-funded banks after their corporate restructuring and other

qualification inheritance, the market maker shall submit the change to the SAFE for filing via the CFETS within 30 days after the change.

Article 11 The SAFE will monitor market-making situations of market makers and accept whistle-blowing by market players on any market maker's failure to perform its market-making obligations in accordance with Article 5 above.

Article 12 The CFETS will improve the *Evaluation Methods for the Interbank Foreign Exchange Market* based on the SAFE's requirements and market feedbacks, regularly report the market maker assessment indicators to the SAFE as well as the PBC.

Article 13 Where a market maker fails to perform its market making obligations or seriously disturbs the foreign exchange market, the SAFE may hold talks with it, send a risk reminder, or suspend its market marker qualification in accordance with the law and impose penalties on it in accordance with the *Regulations of the People's Republic of China on Foreign Exchange Administration*.

Article 14 For market makers for direct trading and minor currency trading in the interbank foreign exchange market, relevant regulations of the PBC shall be followed.

Article 15 The *Guidelines* will be interpreted by the SAFE.

Article 16 The *Guidelines* will become effective as of the day of issuance, while at the same time, the *Guidelines for Interbank Foreign Exchange Market Makers* (Huifa No.13 [2013]) will be

nullified.