

Appendix:

Guidelines on Code of Conduct for the Foreign Exchange Market

Chapter I General Principles

Article 1 The *Guidelines* have been formulated according to the *Law of the People's Republic of China on the People's Bank of China*, the *Regulations of the People's Republic of China on Foreign Exchange Administration* and other relevant provisions in order to regulate and develop the foreign exchange market, promote its honest, fair, orderly and efficient operation in China, and safeguard the rights and interests of participants in the foreign exchange market.

Article 2 The foreign exchange market referred to under the *Guidelines* means the market where the Chinese currency Renminbi is traded against foreign currencies on such organized trading platform duly incorporated in China as China Foreign Exchange Trade System (hereinafter referred to as the CFETS), among others.

Article 3 The market participants referred to under the *Guidelines* include organizations directly participating in foreign exchange market transactions, such financial infrastructure operators as the CFETS and the Shanghai Clearing House (hereinafter referred to as the SHCH), and such market service providers as money brokerage companies.

Article 4 The *Guidelines* are applicable to transactions conducted directly in the foreign exchange market, as well as to transactions conducted between market participants and their customers by way of the foreign exchange market.

The customers referred to under the *Guidelines* mean organizations receiving the foreign exchange transaction and post-transaction services

provided by market participants, enterprises participating in foreign exchange transactions over the counter in relation to market participants, etc.

Article 5 The transactions in the foreign exchange market shall adhere to the principles as follows:

(1) Complying with relevant laws, regulations and regulatory policies of the state;

(2) Being open, fair, just and honest;

(3) Complying with professional ethics, market practices and relevant business rules of the foreign exchange market.

Article 6 The CFETS shall organize foreign exchange market transactions, monitoring and operations, and make concrete trading rules, within its terms of reference and under the supervision of the People's Bank of China (PBC) and the State Administration of Foreign Exchange (SAFE).

Article 7 SHCH shall provide clearing and other services for foreign exchange market transactions, and make concrete clearing rules, under the supervision of the PBC and the SAFE.

Article 8 Market participants shall comply with the self-regulatory rules and regulations under the self-regulatory mechanism for the foreign exchange market to maintain market order and a level playing field.

Chapter II Transaction Management

Article 9 Market participants shall process customers' trading instructions or orders in a fair, transparent and honest manner within their terms of reference.

(1) They shall give full consideration to the differences between different types of orders placed by their customers with a view to achieving institutional fairness and transparency;

(2) They shall maintain just and reasonable quotation systems with respect to their customers, with their quotations explicitly indicating whether they are strike prices or indicative ones.

(3) They shall make full disclosure to their customers in a reasonable, appropriate manner before entering into transactions, taking the complexity of their products into account, and shall not make false representations or use misleading languages to go against the true will of their customers;

(4) In using unfulfilled customer orders to engage in actual transactions (e.g. pre-hedging), as well as using non-conventional trading technologies (e.g. aggregation services) to process customer orders, they shall observe professional ethics and market practices prevailing on the foreign exchange market, such as self-regulatory code of conduct. Should such act be in conflict with customer interest, they shall make full disclosure to their customers;

(5) They shall reject customers' trading instructions or orders on sufficient grounds and shall not engage in transactions based on rejected customer instructions or trading orders; and

(6) They shall not disrupt market order and violate the rules for fair competition.

Article 10 Participants providing benchmark exchange rates for the foreign exchange market shall monitor the reasonableness of the formation of their benchmark rates on an ongoing basis.

Article 11 Market participants shall identify actual or potential conflict of interest and take reasonable, effective measures to remove or manage such conflict. With respect to conflict of interest that cannot be removed or managed, market participants shall disclose details of such conflict to the affected parties. The conflict of interest includes, without limitation:

- (1) That with customers or other market participants;
- (2) That between and among different customers;
- (3) Circumstances where the staff members of a market participant are relatives of the market participant's customers or have common interest with their customers;
- (4) Circumstances where the staff members of a market participant receive gift or entertainment from their customers; and
- (5) Circumstances where the staff members of a market participant engage in relevant transactions in person.

Article 12 Market participants shall not engage in tunneling in dealing with other market participants or customers, nor shall they take advantage of their positions or posts to seek personal gains for themselves or others.

Article 13 Market participants shall not use non-public information that has significant impact on prices to engage in transactions themselves or advise others to do the same.

Article 14 Market participants shall conduct proprietary trading of foreign exchanges in a reasonable manner to provide the foreign exchange market with liquidity, fill the exchange demand-supply gap and stabilize the exchange rates at a reasonable, balanced level.

Article 15 Market participants shall not engage in the following market manipulations:

- (1) Manipulating market prices through colluding or pooling funds for transaction purposes;
- (2) Abusing dominant market positions to affect prices or cause other unfair transactions to take place;
- (3) Attempting to unduly affect or manipulate closing prices or other benchmark prices; or
- (4) Other market manipulation behaviors that obstruct or attempt to obstruct fair market transactions and price discovery.

Article 16 Market participants shall not engage in the following fraudulent acts:

(1) Leaving a false impression of the demand-supply situation, prices or value in transactions, including but not limited to overstating the volume of transactions, intentionally removing quotations quickly to trigger flash trading and spoofing on the part of customers, engaging in dynamic layering, creating a pretense of market activity or price changes to hike up prices, etc.;

(2) Requesting transactions or initiating orders without reasonable purposes;

(3) Circulating through media (Internet) or any other means information which the market participants know or should reasonably know according to market practices is false or misleading;

(4) Fabricating or diffusing false or misleading information, or submitting misleading trading requests or orders to induce market transactions or disrupt market order;

(5) Other market fraud behaviors that obstruct or attempt to obstruct fair market transactions and price discovery.

Article 17 When determined to be reasonable under self-regulatory mechanisms, such as circumstances where the parties to a transaction are short of transaction volume requirements, money brokerage companies can provide such parties with the service of substituting counterparties, but can in no means facilitate such parties in overstating the volume of their transactions. Meanwhile, they shall not engage themselves or assist market participants to engage, in quotations, transactions or other acts aimed to obstruct normal market operations or price discovery.

Article 18 In case of force majeure events, emergencies, technical failures or other abnormalities, market participants shall inform all parties to foreign exchange market transactions of such occurrences in a timely

manner and properly handle such transactions according to principles of fairness, justness and integrity.

Chapter III Information Management

Article 19 Market participants shall establish effective systems to identify and protect sensitive information, delineate the scope of persons who need to know sensitive information, set requirements to protect sensitive information, and regulate the channels and methods to communicate sensitive information. They shall not illegally buy or sell, provide or otherwise publicize sensitive information, nor shall they leak trade secrets that have come to their knowledge. Sensitive information includes non-public information either received or produced by market participants. Specifically, it includes:

- (1) Non-public information that may deal a significant impact on market pricing, liquidity or operations;
- (2) Foreign exchange transaction-related information of market participants themselves, their customers or other market participants; and
- (3) Designated confidential information.

Article 20 The communication of foreign exchange market transaction information shall generally be conducted according to provisions of the self-regulatory mechanism. Such communication shall be traceable, examinable, recorded and have access control.

Article 21 Market participants shall properly keep their transaction and communication records. The transaction records shall give a comprehensive, complete and systematic view of all trading orders, executions, etc., and be kept for a period no shorter than five years. The communication records shall include all emails, voice recordings, chat records of market participants themselves and in relation to their customers. Electronic records shall be kept for the same period as transaction records,

whereas oral records shall be kept for a period no shorter than two years. The CFETS can assist market participants in providing records of transactions, including transaction information, fulfilled through the platform of the CFETS.

Article 22 Market participants dealing in OTC transactions shall provide their customers with the basics, the quotations, the information of underlying assets of derivatives, the amount of margin required, the profit/loss, and the position size of relevant products according to regulatory provisions and agreements between the market participants and their customers.

Article 23 Financial infrastructure operators shall perform such obligations as trading, clearing and information disclosure, publicize such basic information as their memberships, transaction prices and transaction volume, as well as such information as the volume of clearing and closing, according to established requirements. In addition, they shall closely monitor market operations and disclose abnormal transactions, affiliated transactions, default handling, etc. according to due provisions.

Furthermore, financial infrastructure operators shall, as required, report market operations to the SAFE on a regular basis. Particularly, they shall report material deviations in price, abnormal fluctuations, false trading, market manipulations and malicious defaults, as well as exceptional circumstances stipulated under Article 18, to the SAFE in a timely manner.

Chapter IV Internal Control and Risk Management

Article 24 Market participants shall establish sound internal control systems and particularly create reasonable, effective organizational structures and operating mechanisms in view of the nature, scale and complexity of, and the level of their participation in, the business they

conduct on the foreign exchange market to ensure that they have definitive and thorough ability to monitor the foreign exchange market activities in which they participate.

Article 25 Market participants shall establish mechanisms to separate the front, mid- and back offices for foreign exchange transactions, separate the trading function from the risk management and compliance functions and from the post-trading, accounting and settlement functions, with a view to ensuring clear roles and responsibilities and the presence of check and balance between their internal organizations and posts and between their personnel.

Article 26 Market participants that are prime brokers shall appropriately separate their prime brokerage business from their proprietary sale and trading businesses. Both the providers and users of prime brokerage services shall comply with relevant regulatory requirements, the CFETS's trading rules and the self-regulatory code of conduct applicable to them, etc.

Article 27 Market participants shall establish monitoring mechanisms and processes commensurate to their own roles to effectively identify and manage various foreign exchange transaction risks, including but not limited to credit, market, operating, technical, settlement, compliance and legal risks, and to prevent such misconduct as market manipulation and fraud, etc.

Article 28 Market participants shall establish clear, efficient, transparent and effective risk control processes for the confirmation and offset of trading, the reconciliation of portfolios, the payment, settlement and clearing of all foreign exchange products to ensure timely and accurate completion of post-trading management work.

Article 29 Market participants shall strictly enforce anti-money laundering and anti-terrorist financing laws, regulations and rules to deliver

their anti-money laundering and anti-terrorist financing obligations.

Article 30 Market participants shall strengthen the monitoring and management of their trading personnel, build relevant systems and processes to identify potential misconduct on the foreign exchange market, strictly punish and hold accountable their personnel involved in defaults in trading activities, and encourage their employees to report suspicious trading or prohibited acts they detect to their directors or other designated personnel, with a view to ensuring that problems identified by such means can be solved in a proper and transparent manner.

Article 31 Market participants shall establish independent internal audit processes to audit and record their compliance with the *Guidelines*, as well as their improvements, in a thorough, independent manner, supervise the rectification of problems detected in such audit, track, assess and validate their rectification measures, and report their work in this regard to their board of directors and high-ranking management. Major internal audit issues shall be reported to the SAFE in a timely manner.

Article 32 Market participants shall cooperate with regulatory bodies in conducting on-site or off-site compliance check against the *Guidelines*. With respect to clues to abnormal transactions given by the regulatory bodies or other market participants, they shall have such transactions investigated by independent functional departments in a timely manner.

Chapter V Supervision and Management

Article 33 The SAFE will include the compliance of banks with the *Guidelines* into the regulatory compliance and prudential operations assessment for their foreign exchange business.

Article 34 All organizations and individuals shall have the right to report illegal foreign exchange transactions. The SAFE and its branch offices shall observe confidentiality obligations with respect to reporters

and give them reward for their reporting according to due provisions.

Article 35 Should market participants violate the *Guidelines*, the SAFE and its branch offices shall have the power to punish them according to relevant provisions of the *Regulations of the People's Republic of China on Foreign Exchange Administration*. Should they be suspected of any crime committed, they shall be handed over to the judicial authorities for prosecution.

Chapter VI Supplementary Provisions

Article 36 The *Guidelines* shall be applied mutatis mutandis to the transactions of foreign currency pairs on the interbank foreign exchange market.

Article 37 Should market participants adopt algorithmic or programmed trading methods, they shall not impair the legitimate interest of other market participants or disrupt the normal trading order of the market. The code of conduct for them in this regard will be otherwise formulated by the SAFE.

Article 38 Should the foreign exchange transactions conducted by market participants and their enterprise customers over the counter fail to meet the regulatory requirements under the *Guidelines*, they can be rectified during the transitional period. The market participants concerned shall make rectification plans for the transitional period and formulate clear schedules for such rectification. At the end of the transitional period, they shall enforce the *Guidelines* in all respects. The transitional period shall extend from the date of the issuance of the *Guidelines* to the end of 2022.

Article 39 The *Guidelines* will be interpreted by the SAFE.

Article 40 The *Guidelines* will take effect as of January 1, 2022.