



## Regulatory framework and approach

- The State Administration of Foreign Exchange (SAFE) regulates exchange controls (<http://www.safe.gov.cn>, while the People's Bank of China (PBOC) is responsible for implementing monetary policy and ensuring overall stability in the financial sector (<http://www.pbc.gov.cn>).
- In March 2003, the Central Banking Regulatory Commission (CBRC) was established to assume the financial supervisory role once undertaken by PBOC (<http://www.cbrc.gov.cn>).
- Since July 2005, China has adopted a managed float regime, with the daily fluctuation range against the USD initially set at +/-0.3%. In May 2007 the interbank spot-trading band was widened to +/-0.5%, and was widened further in April 2012 to +/-1%. PBOC again widen the trading band to +/-2% in March 2014. The range against non-USD currencies was initially set at +/-1.5% but in Sep 2005, this has since been widened to +/-3%.
- To reduce exchange controls and allow market forces to gradually play a bigger role, on December 11, 2015, China's Foreign Exchange Trade System (CFETS) published a new CNY effective exchange rate (CNY CFETS basket). According to the CFETS statement, the intention was to "shift how the public and the market observe RMB exchange rate movements" with the focus moving from a bilateral USD/CNY exchange rate to a trade-weighted index which was seen to better "reflect the overall value change of that currency" and "better capture the competitiveness of a country's goods and services." (<http://www.chinamoney.com.cn/fe/Info/15851090>). The number of currencies in the basket were expanded in December 2016 to 24 from 13 (<http://new.chinamoney.com.cn/english/bmkidxrud/20161229/2050.html>).
- There are three types of foreign currency accounts for Foreign Investment Enterprises (FIEs): capital accounts (for investment and repatriation), current accounts (for trade) and loan accounts (for receiving and repaying loans).
- Cross-border transactions such as those related to trade are permitted, and will use the CNY onshore rate. This, however, must (1) occur through designated clearing banks and (2) be supported by appropriate documentation.

## Onshore CNY products

### FX spot

#### Regulatory:

Only licensed onshore counterparties are allowed. CNY spot can currently be traded against USD, HKD, EUR, GBP, JPY, AUD, CAD, MYR, RUB, SGD, NZD, CHF, ZAR, KRW, SAR and AED on CFETS, China's inter-bank FX trading system. Corporates executing CNY spot are required to submit supporting documentation. Certain kinds of conversion under non-trade and capital items require pre-approval from SAFE.

Daily spot trading in USD/CNY is executed through the China Foreign Exchange Trade System (CFETS). CFETS is the trading system that electronically links the various designated foreign exchange banks (DFEBs). The market is open from 9 am until 11:30 pm. Every morning at 9:15am (local) a fixing is announced. As of 11 August 2015, the daily 9:15am USD/CNY fixing (or central parity rate) is determined using a formula comprising of two parts – "Previous Day USD/CNY 4.30pm Beijing Time close" plus "Changes in the Trade-Weighted Index". This is published on Reuters page < SAEC >. USD/CNY is then allowed to trade within a +/-2.0% band around this fixing.

#### Avg. ticket size:

USD 10 – 20mn

#### Bid/ask spread:

CNY 0.0005 – 0.0020

#### Avg. daily vol:

USD 20 – 35bn

#### Ref. source:

Reuters page <CNY=CFXM>, DB Reuters page <DBSHFX>.

#### Trading hours:

9:30am – 11:30pm, Beijing time

### FX forward/swap/long-dated FX forward

#### Regulatory:

Banks with a derivative license can apply for a separate license to trade USD/CNY forwards in the interbank market after they sign the Chinese version of Master Agreement (NAFMII Agreement) regulated by PBOC. Banks are permitted to trade USD/CNY FX swaps (with no interest rate swaps allowed in the trade) after 6 months of trading forwards. Banks can also apply for trading USD/CNY forwards with corporate clients and are permitted to trade