Guidelines for the Prime Brokerage Business in the China Interbank FX Market (Trial)

1. The General

1.1   These guidelines ("**Guidelines**") are developed by the China Foreign Exchange Trade System (**CFETS**) in accordance with the trading rules of China's Interbank FX Market ("**CIFXM**") and other provisions, for the purposes of regulating and promoting the prime brokerage business of CIFXM and ensuring a fair and orderly market.

1.2   For the purpose of these Guidelines, "prime brokerage transaction" means a transaction conducted by a Prime Brokerage Client, using the credit limit and/or name of a Prime Broker, with a Prime Brokerage Counterparty in the CIFXM.

1.3   These Guidelines are applicable to prime brokerage transactions in China's interbank RMB/FX market and interbank G10 currency pairs market.

2. Definitions

2.1   Prime Broker: A member of the CIFXM who offers prime brokerage services to its Prime Brokerage Clients via the prime brokerage functions of CFETS' Foreign Exchange Trading System. Prime Brokers must meet certain requirements in aspects of number of valid counterparties, bilateral credit limit, trading volume, and risk management system, among others.

2.2   Prime Brokerage Client: A member of the CIFXM that uses the prime brokerage functions of CFETS' Foreign Exchange Trading System as well as the credit limit and/or name of a Prime Broker to conduct transactions with a Prime Brokerage Counterparty.

2.3   Prime Brokerage Counterparty: The actual/executing counterparty of a Prime Brokerage Client in a prime brokerage transaction.

2.4   Prime Brokerage Participants: Prime Brokers and Prime Brokerage Clients that participate in prime brokerage transactions.

2.5   Anonymous Model: A transaction model in which neither the Prime Brokerage Client nor the Prime Brokerage Counterparty knows its actual counterparty both during and after a prime brokerage transaction.

2.6   Named Model: A transaction model in which both the Prime Brokerage Client and the Prime Brokerage Counterparty are acknowledged about each other during a prime brokerage transaction.

3. Business Scope

3.1   Prime brokerage business in the interbank RMB/FX market

3.1.1 Prime brokerage in the interbank RMB/FX market applies to the management of foreign exchange risk under direct investments in the interbank bond market i.e. CIBM Direct. Foreign investors investing through CIBM Direct and meeting applicable regulatory requirements, including those under the *Public Notice No. 3 [2016]* of the People's Bank of China (PBC), may file with CFETS to become a Prime Brokerage Client and participate in the interbank RMB/FX market trading via prime brokerage.

3.1.2 A domestic market maker in the interbank RMB/FX market may file with CFETS to become a Prime Broker.

3.1.3 A Prime Brokerage Client in the interbank RMB/FX market may act as a "Taker" (transaction initiator) in bilateral RFQ and other types of transactions in FX forwards, swaps, and other FX derivatives for the purpose of hedging against the foreign exchange risks arise from interbank bond investments.

3.1.4 According to relevant policies and market demands, the scope of application, available products, eligible participants, and other aspects of the prime brokerage business in the interbank RMB/FX market may be adjusted by CFETS after filing with the authorities.

3.2   Prime brokerage business in the interbank G10 currency pairs market

3.2.1 A market maker or member in the interbank G10 currency pairs market may, based on bona fide business needs, file with CFETS to become a Prime Brokerage Client to trade in the market via prime brokerage.

3.2.2 A market maker or member in the interbank G10 currency pairs market may file with CFETS to become a Prime Broker in this market.

3.2.3 A Prime Brokerage Client in the market may, in matching ODM (order-driven model) trading, bilateral trading (including RFQ and ESP, executable streaming prices), and other types of transactions, act as a "Maker" (quote responder) or "Taker" in spot, forward, swap, and other derivatives transactions in G10 currency pairs.

4.   Provisions in Agreement

4.1   Under the Anonymous Model, a Prime Brokerage Client may enter into prime brokerage transactions with any counterparty that has been approved by, and maintains a contractual and credit relationship with, the Prime Brokerage Client's Prime Broker. The Prime Broker is to enter into a prime brokerage agreement with the Prime Brokerage Client to specify the conditions and scope of its prime brokerage services, including available products, currencies, term, quota, risk exposure, settlement method, and division of responsibilities.

4.2   Under the Named Model, the three parties participating in a prime brokerage transaction (i.e., the Prime Broker, Prime Brokerage Client, and Prime Brokerage Counterparty) are to enter into a tripartite agreement that specifies the conditions and scope of the prime brokerage services offered by the Prime Broker to the Prime Brokerage Client as well as the rights, obligations, and responsibilities of each of the three parties under the transaction.

4.3   Prime brokerage participants may choose between the Anonymous Model and Named Model at their own discretion. Prime Brokers are to file with CFETS all prime brokerage-related agreements, and timely notify CFETS of any change to or the termination of such agreements.

4.4   CFETS organizes and provides a platform for the prime brokerage business, but does not participate in prime brokerage transactions. The rights and obligations of Prime Brokerage Participants in relation to CFETS and vice versa are to be governed by member agreements, trading rules of the CIFXM, and rules relating to the prime brokerage business released by CFETS.

4.5   A Prime Broker may offer prime brokerage services to one or multiple Prime Brokerage Clients; a Prime Brokerage Client may select one or multiple Prime Brokers.

5.   Quota and Authority Management

5.1   A Prime Broker shall conduct eligibility review and due diligence on its Prime Brokerage Clients according to applicable policies and risk management requirements.

5.2   A Prime Broker shall maintain, manage, and monitor the trading privileges and quota of its Prime Brokerage Clients in a timely manner.

5.3   A Prime Broker shall evaluate the risks of its Prime Brokerage Clients on an ongoing basis and, based on the evaluation result, determine whether their brokerage relationship should be maintained and whether trading privileges and quota need to be adjusted.

5.4   A Prime Broker shall assign dedicated personnel to configure and maintain the trading privileges and quota of Prime Brokerage Clients. A Prime Broker shall ensure that CFETS and Prime Brokerage Clients may contact such personnel whenever necessary. A Prime Broker shall promptly notify CFETS and Prime Brokerage Clients of any change to such personnel.

5.5   A Prime Brokerage Client shall check its remaining trading quota and range of trading products in a timely manner to ensure that its transactions comply with prime brokerage-related agreements.

6.   Trading, Post-Trade, and Settlement

6.1   CFETS launches the prime brokerage business mainly to help market participants that are unable to enter into transactions due to credit or quota limit to do so through Prime Brokers. No Prime Brokerage Client may conduct prime brokerage transactions for illegitimate purposes.

6.2   A Prime Brokerage Client that conducts prime brokerage transactions shall abide by the corresponding trading rules of the FX market and be responsible for the compliance of its transactions.

6.3   A Prime Brokerage Client shall conduct transactions within the scope approved by the CFETS and permitted by the prime brokerage-related agreements. A Prime Broker may decline to carry out any transaction of a Prime Brokerage Client that is beyond the scope specified in

those agreements.

6.4   A Prime Broker shall carry out the prime brokerage transactions of a Prime Brokerage Client that are within the scope specified in the prime brokerage-related agreements and bear the associated risks including credit, clearing, and settlement risks.

6.5   Under the Anonymous/Named Model, a transaction between a Prime Brokerage Client and its Prime Brokerage Counterparty will be automatically split into two back-to-back legs by the trading system, one between the carrying Prime Broker and the Prime Brokerage Counterparty, and one (a reverse transaction) between the Prime Broker and the Prime Brokerage Client. The two legs will both be reflected in the trading and position statistics and the market data published for the CIFXM.

The two legs are mutually independent and are subject to the same emergency cancellation procedures as for ordinary transactions. Post-trade events concerning either leg (such as default, cancellation, and offset) will not affect the enforceability of the other.

6.6   A Prime Broker is to confirm and settle transactions separately with the Prime Brokerage Counterparty and the Prime Brokerage Client based on the deal tickets generated by the trading system. The transaction between the Prime Broker and the Prime Brokerage Counterparty should be confirmed and settled according to the current CIFXM procedures; the transaction between the Prime Broker and the Prime Brokerage Client should be confirmed and settled according to the method specified in the prime brokerage-related agreements between them.

7.   Compliance Management

7.1   A Prime Broker shall maintain the confidentiality and safety of the information about Prime Brokerage Clients, and may not disclose the account information, trading data, and the particulars of the businesses of Prime Brokerage Clients to any organization or individual, unless such disclosure is required by laws, regulations, or regulatory rules; or is necessary for its own risk management and compliance; or is expressly and validly authorized by the Prime Brokerage Clients.

7.2   To prevent conflict of interest, a Prime Broker shall formulate internal management rules to segregate its prime brokerage business from its FX sales and transactions.

7.3   A Prime Broker shall establish appropriate information segregation rules to restrict internal, non-prime brokerage personnel from accessing information about Prime Brokerage Clients, and to maintain a reasonable separation, in terms of physical working space, between those who have access to key information about prime brokerage business and the rest.

7.4   A Prime Broker shall organize confidentiality and professional ethics training for its employees to prevent the divulgation of non-public information of Prime Brokerage Clients, safeguard the rights and interests of Prime Brokerage Clients, and prevent reputation risk associated with its prime brokerage business.

7.5   A Prime Broker shall create a risk management and compliance framework for its prime

brokerage business to effectively identify, monitor, and manage the related risks.

7.6   Each prime brokerage transaction should be fully traceable. A Prime Broker shall properly keep the records relating to its prime brokerage business, including records of completed transactions as well as declined transactions and etc.

7.7   A Prime Brokerage Participant shall, with reference to the *China FX Code*, the *FX Global Code*, and other market best practices and based on the characteristics of its business, develop sound internal management rules to strengthen the management of front-, middle-, and back-office operations.

8.   Dispute Resolution

8.1   For prime brokerage transactions under the Anonymous Model, if any dispute arises between a Prime Brokerage Client and its Prime Brokerage Counterparty, the Prime Broker concerned shall mediate such dispute while maintaining the confidentiality of the transaction information of the Prime Brokerage Client and the Prime Brokerage Counterparty. CFETS may provide additional assistance if necessary.

8.2   For prime brokerage transactions under the Named Model, any dispute between a Prime Brokerage Client and a Prime Brokerage Counterparty should be resolved through mutual consultation.

9.   Suspension and Termination of Prime Brokerage Business

9.1   If CFETS has reasonable grounds to believe that an order/quote from a Prime Brokerage Client may disrupt the orderliness of the market, it may directly cancel or require the Prime Brokerage Client to cancel the order/quote.

9.2   A Prime Brokerage Participant may terminate its prime brokerage service with a one-month prior written notice to CFETS.

9.3   The termination of prime brokerage-related agreements or trading privileges does not affect transactions already concluded. The participants remain obligated to perform and complete those transactions.

9.4   If CFETS has sufficient evidence or reasonable grounds to believe that a Prime Brokerage Participant has violated these Guidelines and adversely affected the orderliness of the CIFXM, CFETS may, based on the severity of the circumstances, take corresponding measures against the Prime Brokerage Participant pursuant to the trading rules of the CIFXM.

10.   Miscellaneous

10.1 CFETS monitors prime brokerage transactions according to the trading rules of the CIFXM and other market regulations, and periodically evaluates the eligibility of a Prime Broker (including without limitation the number of counterparties with valid credit relationship and the effective bilateral credit limit).

10.2   If a Prime Brokerage Participant intends to conduct the prime brokerage business through the system interfaces of CFETS, it shall file with CFETS in advance and strictly abide by the relevant business, technical, and operational requirements of CFETS, and shall not compromise the security of CFETS' trading system or the orderliness of the market.

10.3   A Prime Broker shall pay the fees related to its prime brokerage business based on the fee schedule released by CFETS. A Prime Brokerage Client shall pay the fees incurred by CIFXM transactions based on the current fee schedule for members of CFETS.

10.4   The fees and fee rates that a Prime Broker charges a Prime Brokerage Client as well as the payment method should be determined by the parties themselves.

10.5   The Anonymous Model does not support emergency prime brokerage transactions to be insert into the existing transaction queue. To insert an emergency prime brokerage transaction under the Named Model, the three parties to the transaction (i.e., the Prime Broker, Prime Brokerage Client, and Prime Brokerage Counterparty) shall apply to CFETS.

10.6   CFETS reserves the right to interpret and amend these Guidelines. These Guidelines shall come into force as of the date of release.