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Mizuho Bank (China), Ltd.  
Advisory Division

—Policy Issues for Foreign Exchange Administration—

## Mizuho China Business Express

(No. 402)

# People's Bank of China Clarifies Scope of Foreign Currency Risk Reserve, Includes Wide Range of Derivatives in Scope of Deposit Requirement

On September 2, 2015, the People's Bank of China (PBOC) issued the [Circular on Matters relating to the Macro-Prudential Management of Foreign Currency Forward Contracts](#) (Yinbanfa [2015] No. 203; hereinafter referred to as "Circular No. 203"). The circular clarifies the inclusion of derivative instruments such as currency swaps and options in the scope of the deposit of a **foreign currency risk reserve** on the **foreign currency forward contracts** (involving foreign currency-buying and yuan-selling) for customers that are undertaken by financial institutions.

The PBOC promulgated the [Circular on the Enhanced Macro-Prudential Management of Foreign Currency Forward Contracts](#) (Yinfa [2015] No. 273); hereinafter referred to as "Circular No. 273") on August 31, 2015<sup>1</sup>. Starting October 15, 2015, financial institutions, including finance companies, that handle foreign currency forward contracts (involving foreign currency-buying and yuan-selling) for customers will be required to deposit a foreign currency risk reserve with the PBOC based on the total value of such contracts in the previous month. The foreign currency risk reserve ratio has been set at 20%, and the reserves thus deposited are to be frozen in a special account at the PBOC for a period of one year. The interest rate on these reserves has been set at 0%.

On the basis of Circular No. 273, Circular No. 203 defines "foreign currency forward contract business for customers" as "**business involving RMB-foreign currency derivative instruments that are created for the purchase of a foreign currency** by the customer on a future date" (Article 1). Specifically, the foreign currency risk reserve deposit requirement includes the following transactions:

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<sup>1</sup> See Mizuho China Business Express No. 401 for further details. This article is available for download from the following URL:  
<http://www.mizuhobank.com/service/global/cndb/express/pdf/R419-0409-XF-0105.pdf>

**Transactions subject to the foreign currency risk reserve deposit requirement**

- ✓ Forward buying contracts involving a foreign currency for a customer
- ✓ Call or put option transactions, and options combinations for a customer
- ✓ Currency swaps where the customer will collect foreign currency at a future date with no exchange of the principal amount in the short term
- ✓ Forward and/or swap transactions involving yuan buying or selling (i.e., currency swaps involving the yuan)
- ✓ Other transactions involving foreign currency purchases under contract for a customer

(Article 1, Circular No. 203)

This means that a wide range of derivative instruments that are used for the purpose of buying a foreign currency and selling yuan are now specifically included in the scope of the PBOC's foreign currency risk reserve deposit requirement, which will **increase the cost to customers/financial institutions of executing such transactions**. It should be noted that the deposit requirement for options transactions is set at 50% of the notional principal amount, whilst that for other transactions is the full value of the notional principal (Article 1).

Circular No. 203 highlights anew the necessity for financial institutions of adhering to the principle of ensuring that foreign currency forward contracts are underpinned by real transactions such as trade (Article 2). The circular provides further evidence of the tough stance that is being adopted by China's monetary authorities toward speculative currency trading in expectation of a sharp yuan depreciation.

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A provisional translation of Circular No. 203 together with the original Chinese document is presented below for further reference.

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(Provisional translation)

**General Administration Department of the People's Bank of China**

**Yinbanfa [2015] No. 203**

**Circular on Matters relating to the Macro-Prudential Management of Foreign Currency  
Forward Contracts**

Shanghai Head Office, all branches and operation offices, central branches at the provincial capital levels, Shenzhen central branch of the People's Bank of China (PBOC); China Development Bank, the Export-Import Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, Shanghai Pudong Development Bank, China CITIC Bank, Industrial Bank, China Minsheng Bank, China Everbright Bank, Hua Xia Bank, China Guangfa Bank, Ping An Bank, China Zheshang Bank, China Bohai Bank, Postal Savings Bank of China:

To effectively implement the *Circular on the Enhanced Macro-Prudential Management of Foreign Currency Forward Contracts* (Yinfa [2015] No. 273), the relevant matters are hereby notified as follows.

1. As provided for by regulatory document, Yinfa [2015] No. 273, foreign currency forward contract business for customers refers to business involving RMB-foreign currency derivative instruments that are created for the purchase of a foreign currency by the customer on a future date, and include the following transactions:
  - (1) Forward buying contracts involving a foreign currency for a customer;
  - (2) Call or put option transactions, and options combinations involving multiple options for a customer;
  - (3) Currency swaps where the customer will collect foreign currency at a future date with no exchange of the principal amount in the short term;
  - (4) Forward and/or swap transactions involving yuan buying or selling;
  - (5) Other transactions involving foreign currency purchases under contract for a customer.

The foreign currency risk reserve deposit is calculated on the basis of half the notional principal of options and options combinations (where the highest yielding option is taken as the notional principal for options combinations) and the full value of the notional principal for all other foreign currency forward contract transactions that are undertaken for customers.

2. The foreign currency forward contract business that is executed by financial institutions on behalf of customers shall adhere to the real demand principle. Financial institutions shall enhance their capabilities in the area of innovation and transaction management, shall establish rigorous risk management and internal control systems, and shall develop their foreign currency forward contract business in careful accordance

with risk management standards.

3. Pursuant to the requirements of Yinfa [2015] No. 273, all branches and foreign exchange administrative departments of the State Administration of Foreign Exchange shall submit a list of related financial institutions to the relevant sales department of the central branch at the provincial capital level or higher ranking branch office of the PBOC. Simultaneously, these organizations shall urge such financial institutions to adhere to the real demand principle, submit objective and factual statistical data, not to engage in window dressing and/or fraudulent transactions.

The branch offices of the PBOC shall forward this Circular to all branches and foreign exchange administrative departments of the State Administration of Foreign Exchange, and city commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives, village or township banks, finance companies, and foreign financial institutions that engage in foreign currency forward contract business for customers in the jurisdiction on the day of its printing and distribution.

General Administration Department of the People's Bank of China

September 2, 2015

(Original document)

**中国人民银行办公厅**  
**银办发[2015]203号**  
**关于远期售汇宏观审慎管理有关事项的通知**

中国人民银行上海总部，各分行、营业管理部，各省会（首府）城市中心支行，深圳市中心支行；国家开发银行，中国进出口银行，中国工商银行、中国农业银行、中国银行、中国建设银行、交通银行，招商银行、浦发银行、中信银行、兴业银行、中国民生银行、中国光大银行、华夏银行、广发银行、平安银行、浙商银行、渤海银行，中国邮政储蓄银行：

为切实落实好《中国人民银行关于加强远期售汇宏观审慎管理的通知》（银发[2015]273号），现就有关事项通知如下：

一、银发[2015]273号文件所称代客远期售汇业务是指在未来某一时间形成客户购汇行为的人民币对外汇衍生产品业务，包括以下情况：

- （一）客户远期售汇业务；
- （二）客户买入或卖出期权业务，以及包含多个期权的期权组合业务；
- （三）客户在近端不交换本金、远端换入外汇的货币掉期；
- （四）人民币购售业务中的远、掉期业务；
- （五）客户远期购入外汇的其他业务。

除期权和期权组合业务按名义本金（期权组合采用名义本金最高的单笔期权）的二分之一外，其他代客远期售汇业务均按名义本金的全额作为应交存外汇风险准备金的计算基准。

二、金融机构为客户办理远期售汇业务，应当坚持实需交易原则。金融机构应当提高自主创新能力和交易管理能力，建立完善的风险管理制度和内部控制制度，审慎开展与自身风险管理水平相适应的远期售汇业务。

三、国家外汇管理局各分局、外汇管理部应按照银发[2015]273号文件要求，向相应的中国人民银行省会（首府）城市中心支行以上分支机构营业部门提供相关机构名单。同时，督促金融机构执行实需交易原则并提供客观、真实的统计数据，不得弄虚作假。

请中国人民银行分支机构将本通知于印发之日转发至相应的国家外汇管理局分局、外汇管理部，以及辖区内开展代客远期售汇业务的城市商业银行、农村商业银行、农村合作银行、农村信用社、村镇银行、财务公司和外资金融机构。

中国人民银行  
2015年9月2日

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