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 Advisory Division

—Policy Issues for Foreign Exchange Administration—

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The People's Bank of China Imposes Foreign Currency Risk Reserve Deposits in a bid to Ease Strong Downward Pressure on the Yuan

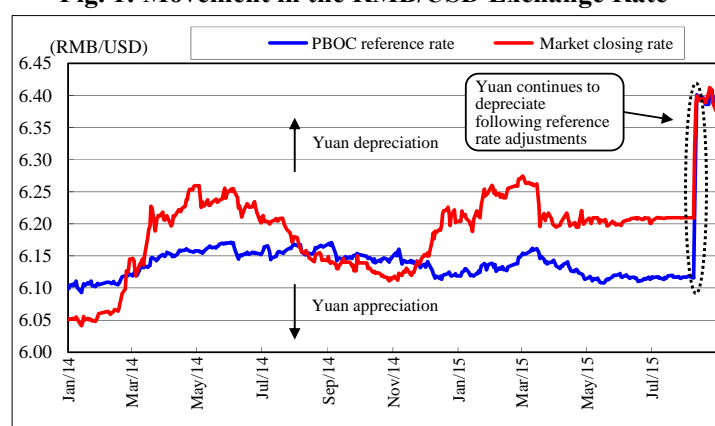
On August 31, 2015, the People's Bank of China (PBOC) issued the [Circular on the Enhanced Macro-Prudential Management of Foreign Currency Forward Contracts](#) (Yinfa [2015] No. 273; hereinafter referred to as “Circular No. 273”). Starting October 15, 2015, financial institutions that handle **foreign 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. This move by China's central bank is being seen as **a bid to ease the strong downward pressure on the yuan from a combination of dollar-buying and yuan-selling** in foreign exchange markets.

□ Has the PBOC conducted yuan-buying and dollar-selling intervention?

On August 11, 2015, the PBOC suddenly cut the central parity rate (reference rate) against the U.S. dollar to 6.2298 yuan on the interbank market, a reduction of 1.86% from the previous day. In a statement released simultaneously, the PBOC announced its intention to **base the exchange rate on the previous day's closing rate at the interbank market** in a bid to ensure that the **central parity rate is a more accurate reflection of the actual market rate**. The

PBOC's surprise devaluation move caught the market off guard, with the yuan depreciating sharply against the U.S. dollar in daily trading before rallying to 6.3975 yuan on August 14, with the reference rate dropping 4.6% in the four days from August 10 (see Fig. 1).

Fig. 1: Movement in the RMB/USD Exchange Rate



Source: PBOC, the China Foreign Exchange Trade System (CFETS)

The latest move by the PBOC to adjust the reference rate is being seen by markets as an effort to boost exports by devaluing the yuan, while downward pressure on the yuan (dollar-buying and yuan-selling) has increased in the face of further evidence of China's economic slowdown and the prospect of further devaluation moves by the central bank. The PBOC responded by intervening in the foreign exchange markets (yuan-buying and dollar-selling) in a bid to stabilize the exchange rate, which served to stem the yuan depreciation and is believed to have made a big dent into China's foreign exchange reserves accordingly.

The total outstanding funds for foreign exchange, a measure of the total amount of yuan released into markets by Chinese financial institutions, including the PBOC, through foreign currency purchases, **saw a decline of 249.1 billion yuan** on the previous month in July, which **recorded the largest decline since the publication of the statistics** (see Fig. 2). This figure shows that

Chinese financial institutions, including the PBOC, are continuing to soak up yuan from the markets, simultaneously releasing

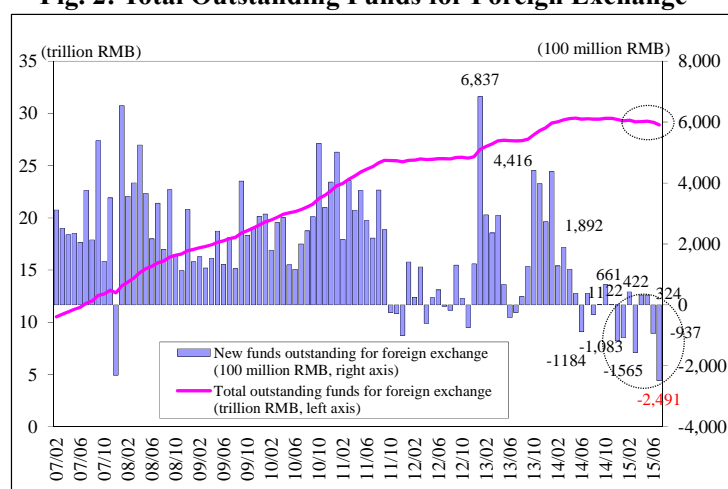
foreign currencies, i.e., that yuan-buying and dollar-selling continues. The PBOC's intervention in foreign exchange markets since August 11 is likely to be reflected by a substantial drop in total outstanding funds for foreign exchange in August.

□ PBOC imposes reserve ratio of 20% of foreign currency forward contract value

Under the provisions of Circular No. 273, financial institutions (including finance companies) that handle foreign currency forward contracts for customers will be required to deposit a monthly foreign currency risk reserve with the PBOC based on the total value of foreign currency forward contracts (involving foreign currency-buying and yuan-selling) in the previous month. The foreign currency risk reserve ratio has been set at **20%**, and the reserves thus deposited are to be frozen for a year in a special account at the PBOC. The interest rate on these reserves has been set at 0%.

This requirement to deposit foreign currency risk reserves with the PBOC will **directly increase the cost to banks of processing foreign currency forward contracts**. The aim of Circular No. 273 is thus to curb foreign currency forward contracts as a factor in the yuan depreciation and is a clear indicator of the unwillingness of the monetary authority to tolerate excess devaluation in the yuan.

Fig. 2: Total Outstanding Funds for Foreign Exchange



Sources: PBOC, CEIC

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A provisional translation of Circular No. 273 together with the original Chinese document is presented below for further reference.

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(Provisional translation)

People's Bank of China
Yinfa [2015] No. 273
Circular on the Enhanced 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); Provincial, autonomous region, and municipal branches, foreign exchange administrative departments, Shenzhen, Dalian, Qingdao, Xiamen and Ningbo branches of the State Administration of Foreign Exchange (SAFE); 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 improve the macro-prudential management framework, prevent macro-financial risks, and promote the sound management of financial institutions, the PBOC has decided to collect a foreign currency risk reserve from financial institutions that engage in foreign currency forward contract business for customers. The relevant matters are hereby notified as follows:

1. Foreign currency risk reserve ratio

From October 15, 2015, financial institutions (including finance companies) that engage in foreign currency forward contract business for customers shall accumulate a foreign currency risk reserve, the ratio for which is provisionally set at 20%.

2. Accounts

The Shanghai Head Office of the PBOC shall establish a special account for the "foreign currency risk reserves of financial institutions" for the purpose of the deposit of foreign currency risk reserves accumulated by financial institutions.

3. Deposits

(1) The Shanghai Head Office of the PBOC shall assume responsibility for the collection, restitution and other daily management of such foreign currency risk reserves.

- (2) Corporate financial institutions and branches of foreign banks in Shanghai shall submit a “Declaration of Foreign Currency Reserve Deposits” (see attached form) to the operation department of the Shanghai Head Office of the PBOC. Financial institutions shall process the transfer of the relevant funds to the Shanghai Head Office of the PBOC once such declarations have been screened by the operation department of the Shanghai Head Office of the PBOC and the official seal affixed.
- (3) Corporate financial institutions and branches of foreign banks located in other areas outside Shanghai shall submit a “Declaration of Foreign Currency Reserve Deposits” to the operation department of the central branch at the provincial capital level or higher ranking branch office of the PBOC in the locality (for Shenzhen, the Shenzhen central branches of the PBOC; the same applies hereinafter). Financial institutions shall process the transfer of the relevant funds to the Shanghai Head Office of the PBOC once such declarations have been screened by the operation department of the relevant branch office of the PBOC and the official seal affixed. The operation department of the relevant branch office of the PBOC shall simultaneously fax the aforementioned declaration forms to the operation department of the Shanghai Head Office.
- (4) Financial institutions shall accumulate a foreign currency risk reserve calculated in U.S. dollars for the foreign currency forward contract business for customers, and shall convert any transactions that are not denominated in U.S. dollars into U.S. dollars for the purpose of accumulation. The conversion rates for the various currencies shall be calculated on the basis of the “Conversion rates of major currencies against the U.S. dollar” that is published each month by the SAFE. Where no official conversion rates have been published, the rate shall be calculated in reference to the method determined by the SAFE for computing conversion rates for major currencies against the U.S. dollar.

4. Assessment

- (1) The PBOC shall assess the foreign currency risk reserves of financial institutions on a monthly basis. Financial institutions shall transfer such reserves into the special account for foreign currency risk reserves established by the Shanghai Head Office of the PBOC by the 15th of the month (or the following day where the 15th is a holiday).

The official formula for calculating the foreign currency risk reserves of financial institutions shall be:
total value of foreign currency forward contracts processed in the previous month × foreign currency risk reserve ratio = monthly foreign currency risk reserve deposit.

- (2) All branches and foreign exchange administration departments of the SAFE shall submit a list of financial institutions that engage in foreign currency forward contract business for customers in the

jurisdiction and related data such as the total value of foreign currency forward contracts processed in the previous month by such financial institutions to the relevant operation department of the central branch at the provincial capital level or higher ranking branch office of the PBOC by the 8th of the month (or the following day where the 8th is a holiday, and the 10th of the month in October).

- (3) Corporate financial institutions and branches of foreign banks shall submit a “Declaration of Foreign Currency Reserve Deposits” to the operation department of the central branch at the provincial capital level or higher ranking branch office of the PBOC in the locality by the 10th of the month (or the following day where the 10th is a holiday, and the 12th of the month in October).
- (4) The foreign currency risk reserves of financial institutions shall be frozen for a period of one year by the PBOC. Once the term of the freeze on the monthly deposits of foreign currency risk reserves accumulated by financial institutions has expired, the PBOC shall restore such funds to accounts designated by the relevant financial institutions on the 15th of that month (or the following day where the 15th is a holiday).
- (5) All branches and foreign exchange administration departments of the SAFE shall, within five working days after screening and approving the qualifications of the financial institutions to engage in foreign currency forward contract business for customers, submit the list of financial institutions to the relevant central branch at the provincial capital level or higher ranking branch office of the PBOC. The relevant branch office of the PBOC shall forward this Circular to the aforementioned financial institutions immediately.

5. Interest Rate

The interest rate on foreign currency risk reserves is provisionally set at 0%.

6. Others

The PBOC shall deal with any violations of the policy on foreign currency risk reserves by financial institutions in accordance with the law.

This Circular is effective as of the date of printing and distribution. All branches and foreign exchange administration departments of the SAFE shall submit a list of the financial institutions that engage in foreign currency forward contract business for customers in the jurisdiction as of the date of printing and distribution of this Circular to the relevant central branch at the provincial capital level or higher ranking branch office of the PBOC.

The branch offices of the PBOC shall forward this Circular to 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.

Attachment: Declaration of Foreign Currency Reserve Deposits [Omitted]

People's Bank of China

August 31, 2015

(Original document)

中国人民银行
银发[2015]273号
关于加强远期售汇宏观审慎管理的通知

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；国家外汇管理局各省、自治区、直辖市分局、外汇管理部，深圳、大连、青岛、厦门、宁波市分局；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：

为完善宏观审慎管理框架，防范宏观金融风险，促进金融机构稳健经营，中国人民银行决定，对开展代客远期售汇业务的金融机构收取外汇风险准备金。现就有关事项通知如下：

一、外汇风险准备金率

从2015年10月15日起，开展代客远期售汇业务的金融机构（含财务公司）应交存外汇风险准备金，准备金率暂定为20%。

二、账户

中国人民银行上海总部设立“金融机构外汇风险准备金”专用账户，用于存放金融机构交存的外汇风险准备金。

三、交存

- （一）中国人民银行上海总部负责外汇风险准备金资金的收取及退还等日常管理。
- （二）在上海的法人金融机构和外资银行分行向中国人民银行上海总部营业部门提交“外汇风险准备金交存申报表”（格式见附件）。中国人民银行上海总部营业部门审查合格并加盖公章后，金融机构向中国人民银行上海总部办理划款手续。
- （三）在上海以外地区的法人金融机构和外资银行分行向其所在地中国人民银行省会（首府）城市中心支行以上分支机构（深圳市的相应为深圳市中心支行，下同）营业部门提交“外汇风险准备金交存申报表”。中国人民银行相关分支机构营业部门审查合格并加盖公章后，金融机构向中国人民银行上海总部办理划款手续。同时，中国人民银行相关分支机构营业部门将上述申报表传真至上海总部营业部门。

- (四) 代客远期售汇业务按美元计算交存外汇风险准备金，非美元币种业务折算成美元交存。各种货币之间的折算率按每月国家外汇管理局公布的《各种货币对美元折算率》计算。未公布折算率的，参照国家外汇管理局确定各种货币对美元折算率的方法计算。

四、考核

- (一) 中国人民银行对金融机构外汇风险准备金按月考核。金融机构应在每月 15 日前（遇节假日顺延）将外汇风险准备金划至中国人民银行上海总部开立的外汇风险准备金专用账户。

金融机构外汇风险准备金计算公式为：当月外汇风险准备金交存额=上月远期售汇签约额 x 外汇风险准备金率

- (二) 国家外汇管理局各分局、外汇管理部应在每月 8 日前（遇节假日顺延，其中 10 月份为 10 日）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辖区内开展代客远期售汇业务的金融机构名单及各金融机构上月远期售汇签约额等相关数据。

- (三) 法人金融机构和外资银行分行应在每月 10 日前（遇节假日顺延，其中 10 月份为 12 日）将“外汇风险准备金交存申报表”报送至所在地中国人民银行省会（首府）城市中心支行以上分支机构营业部门。

- (四) 金融机构在中国人民银行的外汇风险准备金冻结期为 1 年。金融机构按月交存的外汇风险准备金冻结期满后，中国人民银行在期满当月 15 日（遇节假日顺延）将资金退划该金融机构指定账户。

- (五) 国家外汇管理局各分局、外汇管理部应在金融机构代客远期售汇业务资格审批通过之日起 5 个工作日内，将金融机构名单提供至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。中国人民银行相关分支机构应立即将本通知转发至上述金融机构。

五、利率

外汇风险准备金利率暂定为零。

六、其他

中国人民银行依法对金融机构执行外汇风险准备金政策中的违规行为进行处理。

本通知自印发之日起实施。国家外汇管理局各分局、外汇管理部应于通知印发之日将辖区内开展代客远期售汇业务的金融机构名单提供至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。

请中国人民银行分支机构将本通知于印发之日转发至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。

附件：外汇风险准备金交存申报表 [Omitted]

中国人民银行
2015年8月31日

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