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**CHINA INTER-BANK MARKET**

**CURRENCY DERIVATIVE TRANSACTIONS**

**DEFINITIONS DOCUMENT**

**(2012 VERSION)**

**(English Translation)**

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## **Statement on English Translation**

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Beijing Global Law Office, a member of the NAFMII Drafting Committee, has prepared this English translation.

The representatives from other members of the NAFMII Drafting Committee have also participated in the review of this English translation, including Bank of China, Bank of Communications, China Industrial Bank Co., Ltd., China International Capital Corporation, Industrial and Commercial Bank of China, JunZeJun Law Offices and Standard Chartered Bank.

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## Statement

The aim of the issuance of the *China Inter-bank Market Currency Derivative Transactions Definitions Document (2012 Version)* (the “**Currency Definitions Document**”) by the National Association of Financial Market Institutional Investors (the “**NAFMII**”) is to provide participants in the financial derivatives market (the “**Participants**”) with definitions of terms to be used in transaction confirmations, so as to reduce transaction costs, improve the transaction efficiency, and promote the development of the financial derivatives market. NAFMII will continue to make amendments and additions to the content of the definitions in light of the development and needs of the market. When using this Currency Definitions Document, Participants may effect amendments or supplements as may be necessary for the specific transactions.

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# China Inter-bank Market Currency Derivative Transactions Definitions

## Document (2012 Version)

### 1 General Definitions

#### 1.1 Currency Derivative Transaction

means a “currency derivative transaction” designated by the Parties in the relevant Effective Transaction Agreement, including but not limited to FX Forward Transactions, FX Swap Transactions, FX Option Transactions, Currency Swap Transactions and transactions comprising of the above transactions.

#### 1.2 Effective Transaction Agreement

means a legally binding agreement (including but not limited to Transaction Confirmation) entered into in respect of a Currency Derivative Transaction.

#### 1.3 Transaction Confirmation

means the documents or other written evidence confirming or evidencing a Currency Derivative Transaction exchanged by the Parties, including but not limited to Contract Notes, electronic confirmation, e-mails, telegrams, telexes, facsimile transmissions, agreements and letters.

#### 1.4 Contract Note

means the evidence in written form which is generated from the trading system of the Trade Center after a Currency Derivative Transaction is entered into between the Parties through such trading system, which confirms the transaction conditions of that Transaction.

#### 1.5 Parties / Party

in a Currency Derivative Transaction, the Base Currency Payer and the Non-Base Currency Payer are collectively referred to as the “**Parties**” and each as a “**Party**”.





**1.6 Base Currency Payer**

means the Party that makes payments in the Base Currency.

**1.7 Non-Base Currency Payer**

means the Party that makes payments in the Non-base Currency.

**1.8 Trade Center**

means the China Foreign Exchange Trade System & National Interbank Funding Center or any surviving entity, successor or assignee thereof (provided that such surviving entity, successor or assignee assumes all or a substantial part of the business relating to Currency Derivative Transactions therefrom).

**1.9 Market Maker**

means an institution approved to provide two-way bid and offer prices to the market on an ongoing basis and undertake to conclude transactions within the prescribed range of its quoted prices in the interbank foreign exchange market.

**1.10 Dealer**

means a financial institution engaging in the business of Currency Derivative Transactions, as selected by the Parties or the Calculation Institution in the relevant market in accordance with the principle of good faith. The specific selection methods and standards may be set out in the relevant Effective Transaction Agreements.

**1.11 Independent Dealer**

means a Dealer not affiliated to any Party. Affiliation means, in respect of an entity, any other entity which directly or indirectly controls it, or is directly or indirectly controlled by it, or is directly or indirectly under the same control with it.

If an entity holds more than fifty (50) percent of the capital or shares of another entity, or has the material impact on the resolutions of the shareholders, the shareholders' meetings or the board of directors of that entity by virtue of the voting rights of the capital contributed to, or the shares held in, that entity, it will be deemed as "controlling" that entity.



## **1.12 Cash Account**

means an account designated by one Party to make payments to, or receive payments from, the other Party.

## **2 Relevant Definitions on Dates**

### **2.1 Trade Date (also referred to as the “Transaction Date”)**

means the date on which the Parties enter into a Currency Derivative Transaction.

### **2.2 Commencement Date**

means the date on which the specific terms of a Currency Derivative Transaction becomes effective.

### **2.3 Value Date**

means the date on which interest on funds starts to accrue, or the date on which the Parties perform the delivery and settlement of funds.

### **2.4 Termination Date**

means the date on which a Currency Derivative Transaction terminates.

### **2.5 Business Day (also referred to as the “Working Day”)**

means, unless otherwise agreed by the Parties, the following dates: with respect to any payment, a day on which commercial banks in the place where the relevant account is located are ordinarily open for business (not including statutory festivals and holidays); with respect to any notices or communications, a day on which commercial banks in the city that is specified in the address for notice as provided by the receiving Party are ordinarily open for business (not including statutory festivals and holidays).

### **2.6 Business Day Convention**

If any relevant date of a transaction falls on a day that is not a Business Day, it shall be adjusted in accordance with the following relevant conventions:

- (1) Following Business Day: the date will be postponed to the following Business Day;



- (2) Modified Following Business Day: the date will be postponed to the following Business Day, but if the following Business Day falls in the next calendar month, that date will be the preceding Business Day;
- (3) Preceding Business Day: the date will be the preceding Business Day.

## **2.7 Fixing Date**

means, in respect of FX Forward Transactions and FX Option Transactions, the date on which the Reference Price is confirmed under the method of Net Settlement. In respect of Currency Swap Transactions, the Fixing Date, also referred to as the “interest reset date”, means the date when the interest rate for such period is determined in accordance with the reference interest rate before the commencement of each Fixing Frequency or Interest Accrual Residual Period.

## **3 Relevant Definitions on Calculations**

### **3.1 Calculation Institution**

means, in respect of a Currency Derivative Transaction, the institution agreed by the Parties to conduct specific calculations for the payment obligation. The Calculation Institution shall comply with the principle of good faith at the time of calculation. The Calculation Institution shall not be treated as the trustee or advisor of any Party when it performs the function of Calculation Institution. The Calculation Institution is responsible for sending the notice to the Parties on the Calculation Date or other dates agreed by the Parties. Such notice shall at least include the following contents:

- (i) the payment date;
- (ii) the party obliged to pay the due amount and the amount payable; and
- (iii) any other obligation to be performed by the Calculation Institution as determined by the Parties in the Transaction Effective Agreement.

If such payment date and amount payable are changed after the sending of the payment notice, the Calculation Institution shall immediately send a change notice to the Parties, together with an explanation with reasonable details on how such change is determined.

Unless otherwise agreed by the Parties:



- (1) if the Parties select the Trade Center as the Calculation Institution for such transaction, any calculation, confirmation or adjustment made by the Trade Center in relation to such transaction shall be finally binding on the Parties, unless such calculation, confirmation or adjustment has manifest error or negligence;
- (2) in other circumstances, if one Party has a reasonable dispute with any calculation, confirmation or adjustment made by the Calculation Institution (or, where the Parties are both the Calculation Institutions, by the other Party), it may, within two (2) Business Days of the date when it knows such calculation, confirmation or adjustment, jointly with the other Party select an independent third party as the reviewing institution based on the principle of good faith, provided that such selection does not violate the applicable laws of the PRC. If the Parties fail to jointly select a reviewing institution within the above period, each Party may select an independent third party within the first (1<sup>st</sup>) Business Day after that period, while two such third parties will jointly select another independent third party as the reviewing institution. If any Party fails to select an independent third party within such Business Day, then the independent third party selected by the other Party shall act as the reviewing institution. If each Party fails to select the independent third party within such Business Day, the calculation, confirmation or adjustment originally made by the Calculation Institution shall be finally binding on the Parties, unless such calculation, confirmation or adjustment has manifest error or negligence.

The function of the reviewing institution shall be (and shall only be) to re-calculate the above results subject to dispute, based on the principles of good faith and commercial reasonableness. Subject to the above, the calculation made by the reviewing institution shall be finally binding on the Parties, unless such calculation has manifest error or negligence. Unless the Parties otherwise agree, the expenses for retaining the reviewing institution shall be equally shared by the Parties.

### **3.2 Calculation Date**

means the earliest day on which the Calculation Institution is able to conduct the calculation of a payment obligation.



**3.3 Currency Amount** (also referred to as the “**Transaction Amount**”)

means, in relation to a transaction involving more than one (1) type of currency, an amount denominated in one (1) currency as agreed by the Parties.

**3.4 Notional Principal** (also referred to as the “**Notional Amount**”)

means the amount agreed by the Parties in the relevant Transaction Effective Agreement as the basis for calculating the amounts receivable and payable in the future by the Parties.

**3.5 Accuracy of Quotation**

means the precise decimal place for an exchange rate, which shall generally follow the parameter settings of the trading system or the relevant market practice.

**3.6 Basis Point**

means the smallest unit of change for an exchange rate, usually as 0.01 percent.

**3.7 Smallest unit for an amount**

The unit for an RMB amount is Yuan, being accurate to fen (one-hundredth of Yuan). Digits after fen shall be rounded off (with 0.5 fen being rounded upwards). For other currencies the relevant market practice shall be followed.

**4 Relevant Definitions on Exchange Rate**

**4.1 FX**

means properties and methods of payment expressed in foreign currencies and used for international settlements. FX generally means currencies other than RMB.

**4.2 Base Currency**

means, in a currency pair, the currency that is priced.

**4.3 Non-base Currency**

means, in a currency pair, the currency that represents the price of one unit of Base Currency.



#### **4.4 Spot Exchange Rate**

means the price for the exchange of two (2) currencies, generated from the spot transactions in the inter-bank foreign exchange market.

#### **4.5 Reference Price**

means the Spot Exchange Rate or other prices agreed by the Parties, which is used to determine the net amount under the method of Net Settlement. The Reference Price of RMB-FX option transactions is the mid-price of the exchange rate of RMB against the relevant foreign currency on the Termination Date.

### **5 FX Forward Transactions**

#### **5.1 FX Forward Transactions**

include RMB-FX forward transactions and FX-FX forward transactions.

RMB-FX forward transaction means a RMB-FX transaction settled on a designated date in the future with the agreed FX currency, amount and exchange rate, as entered into by the Parties through the trading system of the Trade Center.

#### **5.2 Parties**

##### **5.2.1 Purchaser**

means the Party that purchases the Base Currency.

##### **5.2.2 Seller**

means the Party that sells the Base Currency.

#### **5.3 Relevant Definitions on Exchange Rate**

##### **5.3.1 Forward Exchange Rate**

means the price agreed by the Parties for the exchange of two (2) currencies on a designated date in the future in the inter-bank foreign exchange market.

##### **5.3.2 Forward Basis Point**

means the Basis Point(s) being the difference between the Forward Exchange Rate and the Spot Exchange Rate.



## **5.4 Relevant Definitions on Settlement**

### **5.4.1 Gross Settlement**

means the settlement method on the Settlement Date where the entire principal amount is settled in accordance with the agreed Forward Exchange Rate.

### **5.4.2 Net Settlement**

means the settlement method on the Settlement Date where the settlement of the principal amount is based on the differential between the agreed Forward Exchange Rate and the Reference Price.

### **5.4.3 Settlement Currency**

means the currency payable by the Purchaser to the Seller and the currency payable by the Seller to the Purchaser under the method of Gross Settlement, or the currency agreed by the Parties for the payment under the method of Net Settlement.

### **5.4.4 Settlement Amount**

means the amount in the Settlement Currency as agreed by the Parties to be paid or received by one (1) Party to or from the other Party on the Settlement Date.

### **5.4.5 Settlement Date (also referred to as the “Delivery Date”)**

means the date agreed by the Parties to deliver the funds.

## **6 FX Swap Transactions**

### **6.1 FX Swap Transactions**

including but not limited to RMB-FX swap transactions, FX-FX swap transactions and the transactions comprising of the above transactions.

RMB-FX swap transaction means a transaction under which RMB and one (1) foreign currency will be swapped on two (2) different Settlement Dates but in reverse directions, entered into by the Parties through the foreign exchange trading system of the Trade Center. Under the first leg, one party exchanges with the foreign currency for RMB from the other party at the agreed exchange rate (or exchanges with RMB for the



foreign currency); under the second leg, that party exchanges back with RMB for the foreign currency, in the same currency and same amount, from the other party at the agreed exchange rate (or exchanges with the foreign currency for RMB).

## **6.2 Relevant Definitions on Exchange Rate**

### **6.2.1 Swap Basis Point**

means the Basis Point(s) being the difference between the Final Exchange Rate and the Initial Exchange Rate.

### **6.2.2 Initial Exchange Rate**

means the applicable exchange rate as agreed by the Parties for the first exchange of currencies.

### **6.2.3 Final Exchange Rate**

means the applicable exchange rate as agreed by the Parties for the second exchange of currencies.

## **6.3 Relevant Definitions on Dates**

### **6.3.1 Initial Value Date**

means the date of the first exchange of currencies.

### **6.3.2 Final Value Date**

means the date of the second exchange of currencies.

## **7 FX Option Transactions**

### **7.1 FX Option Transactions**

include RMB-FX option transactions and FX-FX option transactions.

RMB-FX option transaction means an option under which the Option Purchaser is entitled to purchase or sell a specific amount of foreign exchange assets at an agreed exchange rate on a trade date in the future, entered into by the Parties through the foreign exchange trading system of the Trade Center. The Option Purchaser holds the right by way of paying the Option Premium, while the Option Seller collects the Option





Premium and performs the obligations when the Option Purchaser selects to Exercise (the European Option).

## **7.2 Types of Option Transactions**

### **7.2.1 Option to Buy (also referred to as the “Call Option”)**

means the right of the Option Purchaser to buy the underlying currency at the agreed exchange rate and amount on a certain date in the future.

### **7.2.2 Option to Sell (also referred to as the “Put Option”)**

means the right of the Option Purchaser to sell the underlying currency at the agreed exchange rate and amount on a certain date in the future.

### **7.2.3 European Option**

means an option which shall only be Exercised by the Option Purchaser on the Termination Date of such option.

### **7.2.4 American Style Option**

means an option which may be Exercised by the Option Purchaser on or prior to the Termination Date.

## **7.3 Parties**

### **7.3.1 Option Purchaser**

means the party that pays to the Option Seller a certain Option Premium and that is entitled to purchase or sell the underlying currency at the agreed exchange rate and amount on a certain date in the future.

### **7.3.2 Option Seller**

means the party that receives from the Option Purchaser a certain Option Premium and that is obliged to purchase or sell the underlying currency at the agreed exchange rate and amount on a certain date in the future.



## **7.4 Relevant Definitions on Option Premium**

### **7.4.1 Option Premium**

means the premium paid by the Option Purchaser for purchasing the Option.

### **7.4.2 Option Premium Payment Date**

means the date on which the Option Purchaser pays the Option Premium to the Option Seller.

## **7.5 Relevant Definitions on the Exercise of Options**

### **7.5.1 Exercise**

means the exercise by the Option Purchaser of the right to conduct the foreign exchange transaction with the Option Seller on an agreed date in the future.

### **7.5.2 Exercise Price**

means the exchange rate agreed by the Parties to conduct the foreign exchange transaction on a certain date in the future.

### **7.5.3 Exercise Date**

means the date on which the Option Purchaser elects to Exercise or not to Exercise.

### **7.5.4 Cut-off Time**

means the latest time agreed by the Parties to Exercise on the Exercise Date. Unless otherwise agreed by the Parties, the Cut-off Time for RMB-FX options shall generally be 15:00 Beijing time on the Exercise Date.

### **7.5.5 Exercise Notice**

means an instruction sent by the Option Purchaser to the Option Seller through the foreign exchange trading system or in other agreed methods for Exercising or not Exercising, including the express instructions of the Option Purchaser and the instructions automatically issued by the foreign exchange trading system in accordance with the relevant rules. The



Exercise Notice shall be delivered to the Option Seller on or before the Cut-off Time on the Exercise Date, otherwise the Option Purchaser will be treated as not Exercising.

In respect of RMB-FX Option Transactions under the method of Gross Settlement, the Option Purchaser is entitled to elect to Exercise or not to Exercise before 15:00 on the Termination Date. If the Option Purchaser elects to Exercise, the trading system will generate a spot transaction automatically on the basis of the Exercise Price and the Currency Amount for that option and simultaneously notify the Option Seller. If the Option Purchaser does not Exercise before 15:00 on the Termination Date, it will be treated as waiving the Exercise. In respect of RMB-FX Option Transactions under the method of Net Settlement, the trading system will calculate the profits or losses of that option on the basis of the exercise price and the Mid-Price of the Termination Date after the mid-price for the exchange rate of RMB against the relevant foreign currency (the “**Mid-Price**”) on the Termination Date is generated. For an out-of-the-money option or an at-the-money option, the trading system will waive the Exercise automatically on behalf of the Option Purchaser; for an in-the-money option, the Option Purchaser shall elect to Exercise or not to Exercise before 15:00 on the Termination Date, while the trading system will automatically Exercise provided that the Option Purchaser does not Exercise before 15:00 on the Termination Date.

## **7.6 Relevant Definitions on Settlement**

### **7.6.1 Settlement Date** (also referred to as the “**Delivery Date**”)

means the date agreed by the Parties to actually receive or make payments when the Parties perform the delivery of funds at the agreed Exercise Price after the Exercise by the Option Purchaser. Unless otherwise agreed by the Parties, the Settlement Date shall be the second (2<sup>nd</sup>) Business Day after the Exercise Date.



### **7.6.2 Gross Settlement**

means the foreign exchange transaction entered into by the Option Purchaser with the Option Seller at the agreed Exercise Price and amount on the Exercise Date.

### **7.6.3 Net Settlement**

means the settlement on the Settlement Date of the balance based on the netting by the Parties on the Exercise Date between the agreed Exercise Price and the Reference Price.

### **7.6.4 Settlement Amount**

means the amount in the Settlement Currency as agreed by the Parties to be paid or received by one Party to or from the other Party on the Settlement Date.

## **8 Currency Swap Transactions**

### **8.1 Currency Swap Transactions**

include RMB-FX currency swap transactions and FX-FX currency swap transactions.

RMB-FX Currency Swap Transaction means a transaction under which the principal amount of RMB and foreign currency will be swapped for an agreed period and the interest on such two currencies will be swapped periodically, entered into by the Parties through the foreign exchange trading system of the Trade Center. The form of principal swap is the swap between the Parties of the principal amount of RMB and foreign exchange at an agreed exchange rate on the Effective Date, while the Parties will swap the principal in reverse directions at the same exchange rate and amount on the Termination Date, or no actual swap of RMB and foreign exchange between the Parties on both the Effective Date and the Termination Date, or in other forms in compliance with the rules of the competent authorities. The interest swap refers to the periodical payment by one Party to the other Party of the interest amount calculated on the currency swapped in by such Party, which may be calculated by the Parties on the basis of fixed interest rate or floating interest rate.



## **8.2 Relevant Definitions on Dates**

### **8.2.1 Fixing Frequency** (also referred to as the “**Interest Resetting Frequency**“)

means the fixed term for the purpose of re-determining the floating interest rate used to calculate the interest payment under a Currency Swap Transaction.

### **8.2.2 Interest Payment Period**

means the fixed term for which one Party shall pay to the other Party the interest amount calculated on the basis of the swapped-in currency under a Currency Swap Transaction.

### **8.2.3 Effective Date** (also referred to as the “**Initial Value Date**“)

means the Value Date for the Interest Payment Residual Period or the first Interest Payment Period, which will also be the date for the initial exchange of the principal when the exchange of principal is involved.

### **8.2.4 Termination Date**

means the date for the last exchange of interest, which will also be the date for the final exchange of the principal when the exchange of principle is involved.

### **8.2.5 Residual Period**

includes the Interest Payment Residual Period and the Interest Accrual Residual Period. Unless otherwise agreed by the Parties, the Residual Period means the Interest Payment Residual Period.

### **8.2.6 Interest Payment Residual Period**

in respect of a Currency Swap Transaction, if the tenor of transaction is not divisible by the Interest Payment Period, it may be divided into a certain number of complete Interest Payment Periods and an Interest Payment Residual Period. Unless otherwise agreed by the Parties, the front-end rule applies to the Interest Payment Residual Period; in other words, the Interest Payment Residual Period shall be placed at the beginning of such tenor for the calculation of interest.



### 8.2.7 Interest Accrual Residual Period

in respect of a Currency Swap Transaction, if the Interest Payment Period is longer than the Fixing Frequency and one Interest Payment Period is not divisible by the Fixing Frequency, the Interest Payment Period may be divided into a certain number of complete Fixing Frequencies and an Interest Accrual Residual Period. Unless otherwise agreed by the Parties, the back-end rule applies to the Interest Accrual Residual Period; in other words, the Interest Accrual Residual Period shall be placed at the end of such Interest Payment Period for the calculation of the interest.

## 8.3 Relevant Definitions on Interest

### 8.3.1 Interest Period

means the Fixing Frequency or the Interest Accrual Residual Period.

### 8.3.2 Day Count Fraction

Unless otherwise agreed by the Parties, when calculating the interest payable, the applicable Day Count Fraction is determined in accordance with the following rules:

- (a) “**Actual/Actual**” (“**A/A**”): means the quotient of the actual number of days during the Interest Period divided by 365 (or, if any part of the Interest Period falls in a leap year, the sum of (i) the quotient of the actual number of days in the Interest Period falling within the leap year divided by 366 and (ii) the quotient of the actual number of days in that Interest Period falling in a non-leap year divided by 365);
- (b) “**Actual/365**” (“**A/365**”): means the quotient of the actual number of days during the Interest Period divided by 365. If such Interest Period includes the 29<sup>th</sup> of February, interest will accrue on such date;
- (c) “**Actual/365 (fixed)**” (“**A/365F**”): means the quotient of the actual number of days during the Interest Period divided by 365. If such Interest Period includes the 29<sup>th</sup> of February, interest will not accrue on such date;
- (d) “**Actual Days/360**” (“**A/360**”), means the quotient of the actual number of days during the Interest Period divided by 360;



- (e) **"30/360"**: means the quotient of the number of days during the Interest Period divided by 360. The number of days during the Interest Period is calculated on the basis of 12 months per year and 30 days per month, except that in the following two circumstances, the number of days for the current month should be calculated as follows:
- (i) if the first day in the Interest Period is neither the 30<sup>th</sup> or the 31<sup>st</sup>, but the final day is the 31<sup>st</sup>, there shall be 31 days in the current month in which the final day of the Interest Period falls;
  - (ii) if the final day in the Interest Period is the final day of February, the number of interest accrual days in February shall be the actual number of days of that month.

### 8.3.3 Applicable Interest Rates

means the interest rates used to calculate the interest on the Fixing Frequency or the Interest Accrual Residual Period, including but not limited to:

- (a) **CNY 1 Year Deposit Rate**: means the effective Renminbi one-year term deposit interest rate as published by the People's Bank of China on its official webpage ([www.pbc.gov.cn](http://www.pbc.gov.cn)) on the Fixing Date;
- (b) **Shibor**: means the Shanghai Interbank Offered Rate published on <http://www.shibor.org> by the Trade Center as authorised by the People's Bank of China, around 11:30 a.m. Beijing time on the Fixing Date, including eight (8) reference rates being O/N, 1W, 2W, 1M, 3M, 6M, 9M and 1Y;
- (c) **Repo Fixed Rates**: means the repo fixed rates published on the website of <http://www.chinamoney.com.cn> by the Trade Center, around 11 a.m. Beijing time on the Fixing Date, including but not limit to the overnight fixed repo rate (FR001) and the 7-day fixed repo rate (FR007);
- (d) **Libor**: means the London Interbank Offered Rate published by the Reuters on the Fixing Date.