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State Administration of Foreign Exchange
Huarong Plaza
18 Fucheng Road
Haidian District
Beijing 100037
People's Republic of China

Attn: Dr Yi Gang, Deputy Governor

Dear Governor Yi Gang

Structured Products Referencing Shares issued by PRC companies

It was a pleasure meeting you at the annual general meeting of International Swaps and Derivatives Association, Inc (**ISDA**) held in April this year and our sincere thanks once again for sharing with us your insights on China's economy and monetary policy through your keynote address at our meeting.

On behalf of its members, ISDA respectfully presents to the State Administration of Foreign Exchange (**SAFE**) this letter of submission in relation to structured products referencing shares issued by companies incorporated in the PRC.

Introduction

As you are aware, ISDA is among the world's largest global financial trade associations with over 840 member institutions from 58 countries on six continents. We have a detailed understanding of specific derivative products as we drafted the market standard product definitions and confirmations used throughout the globe. In particular, ISDA worked with industry participants in developing the market templates used to document over-the-counter derivatives transactions and is also one of the sponsors of the Joint Association Committee which focuses on developing best practice in the area of structured products.

ISDA welcomes the changes brought about by the *Rules on the Foreign Exchange Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors* published on 29 September this year (the **FX Rules**) which have very positive and significant implications for the investment activities engaged by qualified foreign institutional investors (**QFIIs**) and will further promote the systematic and orderly liberalization of the PRC capital market. We would also like to express our gratitude to SAFE for hosting a training session on the FX Rules in Hangzhou on 26 October which a number of our members found most informative.

Transfer or resale of investment quota – Report on structured products

We understand that the FX Rules contain some restrictions on the transfer or resale of its investment quota by a QFII in contravention of the regulations (Article 23). We understand from our members that there are some uncertainties as to the application of these restrictions to structured products issued by QFIIs or their affiliates outside the PRC (which are economically referenced to shares issued by PRC companies). Since these structured products are well established and widely used in the international markets and are important instruments that support the efficient operation of capital markets both internationally and domestically, there are concerns that these products may be adversely affected by this uncertainty (which could have an impact on the local stock market).

At the Hangzhou meeting, SAFE requested all QFIIs that participated in any issuance of structured products referencing shares issued by PRC companies to report to SAFE and CSRC on the details of these structured products by end of November 2009. We understand that SAFE has, in consultation with CSRC, provided guidance to market participants by way of a checklist of information that should be included in the report and that SAFE and CSRC will, following the review of such reports, make appropriate determination and clarification on whether these restrictions apply to such structured products.

Our contribution on further reforms relating to structured products

Over the years, ISDA has worked with regulators in a number of jurisdictions to support initiatives aimed at enhancing the legal and regulatory framework as it relates to the derivatives industry. We actively contributed to the development of policies and regulations as regards foreign institutional investors and structured products linked to local shares in Taiwan and India through working with the Securities and Futures Commission of Taiwan and Securities and Exchange Board of India.

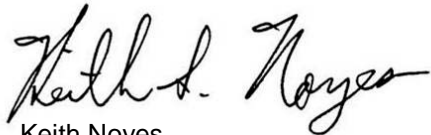
We respectfully request the opportunity to share with you our experience on structured products referencing local shares through presentations to you to cover issues of interest, which may include, for example, the composition of these structured products, the respective rights and obligations of the financial intermediaries issuing the products and the investors in the products, the bank's hedging arrangements for structured products, the benefits brought about by the structured products market, the profiles of market participants, the size of the market, the implications of structured products for domestic stock markets and generally to share with you ISDA's various experiences globally and, in particular, in the Asia Pacific region relating to such structured products. We sincerely hope to have the opportunity to further discuss with you and your colleagues the issues mentioned above at the end of November or some time in December 2009, subject of course to your availability. We will get in touch with your office shortly to discuss the timing and meeting arrangement which will work out best for you and your colleagues.

We very much look forward to meeting you again and working with you and your colleagues in furthering the healthy development of the structured products market and regulatory framework in the PRC.

If you or your colleagues have any question, please do not hesitate to contact Jing Gu of ISDA Hong Kong on +852 2200 5908 (email: JGu@isda.org) or Chin-Chong Liew of Linklaters Hong Kong on +852 2842 4857 (email: Chin-Chong.Liew@linklaters.com).

Yours faithfully

For the International Swaps and Derivatives Association, Inc.



Keith Noyes
ISDA Regional Director, Asia Pacific



Jing Gu
ISDA Assistant General Counsel Asia

(Chinese translation attached)

cc - Ms. Chu Yumei, Assistant Director-General, Capital Account Management Department, State Administration of Foreign Exchange

cc - Ms. Wang Xuesong, Division Director, Department of Investment Fund Supervision, China Securities Regulatory Commission