

Arrangement for Offshore RMB Bond Repurchase Business Using Bonds Held under Northbound Bond Connect as Collateral announced by HKMA

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) announced today (January 13) the arrangement for offshore RMB bond repurchase (repo) business (offshore repo arrangement) to further enhance the market-based arrangement for offshore RMB liquidity management and increase Hong Kong's competitiveness as an offshore RMB business hub.

Under the offshore repo arrangement, Northbound Bond Connect participants can use eligible onshore bonds as collateral to conduct RMB repo business in Hong Kong. The business is scheduled to commence soon. To facilitate a smooth launch of this business, it is hereby announced that:

1. Participating Institutions:

- All existing Northbound Bond Connect investors, including Central Moneymarkets Unit (CMU) members and offshore investors with CMU sub-accounts opened through Hong Kong custodian banks that are CMU members.

2. Eligible Bonds:

- Bonds held by participating institutions under Northbound Bond Connect, regardless of bond type.

3. Market Maker Arrangement:

- In the initial phase, 11 Primary Liquidity Providers designated by the HKMA (Note 1) will serve as market makers. Each repo transaction must involve at least one of these market makers as a counterparty.

4. Transaction and Settlement Arrangements:

(a) Master Agreement: Participants may choose their own repo agreement template (e.g., Global Master Repurchase Agreement (GMRA) or National Association of Financial Market Institutional Investors (NAFMII)'s Bond Repurchase Master Agreement, etc.).

(b) Trading Arrangement: Transactions may be conducted:

1. bilaterally over-the-counter (OTC);
2. in the same manner as existing Northbound Bond Connect transactions, and

via the linkage between the Central Securities Depositories (CSDs) in the onshore and offshore markets;

3. through offshore electronic trading platforms;
4. through onshore electronic trading platform;

(c) Settlement Arrangement: Settlement will be completed under the Repo Service by CMU.

To ensure a smooth operation of the business, leverage limits will be introduced during the initial phase. Specifically, bond ownership will be transferred to the repo buyer during the repo period, but the repo buyer will not be permitted to re-use the bonds during the repo period (the bonds will be locked and managed by the CMU platform). In the future, the HKMA will review the operation and experience of the offshore repo arrangement and make further adjustments as needed.

5. Data Reporting:

- Market makers are required to report transaction data (Note 2) to the HKMA on the same day of the transaction for market monitoring purposes. The HKMA will further communicate with the market makers to finalise the reporting requirements and submission channels.

The operational details for bond transfer and settlement will be announced by CMU at a later date. After the launch of the offshore RMB repo business, the HKMA will continue to closely monitor market conditions to ensure orderly market operations. The HKMA will also maintain communication with the industry and review and adjust the arrangement as appropriate to support the robust and sustainable development of offshore RMB business.

Note 1: Including 1) Agricultural Bank of China Limited, 2) Bank of China (Hong Kong) Limited, 3) Bank of Communications Co., Ltd., 4) BNP Paribas, 5) China CITIC Bank International Limited, 6) China Construction Bank (Asia) Corporation Limited, 7) Citibank, N.A., 8) Hang Seng Bank Limited, 9) The Hongkong and Shanghai Banking Corporation Limited, 10) Industrial and Commercial Bank of China (Asia) Limited, 11) Standard Chartered Bank (Hong Kong) Limited

Note 2: The specific information to be reported includes: names of the trading institutions (including both the repo party and the reverse repo party), total amount of funds borrowed by the repo party, bond name, bond code, repo term, total face value, repo rate, transaction date, etc.