HKMA and SFC welcome PBoC's new measure on Northbound Swap Connect margin collateral arrangement

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

The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) welcome the announcement of the People's Bank of China (PBoC) today (July 9) to support offshore investors to use onshore bonds issued by the Ministry of Finance and policy banks on the Mainland and held under Northbound Bond Connect as margin collateral for Northbound Swap Connect transactions.

This measure will provide Northbound Swap Connect investors with the additional choice of non-cash collateral, reducing their liquidity cost and improving capital efficiency. It will also help vitalise offshore investors' onshore bond holdings and further enhance the attractiveness of onshore bonds. The measure will also promote synergies between Bond Connect and Swap Connect, thereby further invigorating market participation in the Connect Schemes.

This is a new arrangement for the use of onshore bonds as eligible collateral in the offshore market, following the inclusion of onshore bonds issued by the Ministry of Finance and policy banks on the Mainland in the list of eligible collateral for the HKMA's RMB Liquidity Facility on February 26 this year. It is built on the collaborative efforts with the PBoC to deepen financial co-operation between Hong Kong and the Mainland and further promote RMB internationalisation in a steady, orderly and sound manner. The HKMA and the SFC will continue to provide guidance to the financial infrastructure institutions (including the HKMA Central Moneymarkets Unit and OTC Clearing Hong Kong Limited) to take forward the preparatory work, including promulgating rules for the provision of collateral by way of security interest or title transfer, and for the transfer of the relevant bonds, with a view to implementing this new measure as soon as practicable. Relevant details will be announced in due course.