

## LCQ22: Central Moneymarkets Unit

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 12):

Question:

When delivering the Budget in February this year, the Financial Secretary indicated that, in order to cope with the increasing market demand for Northbound Trading of the mutual bond market access between Hong Kong and the Mainland (commonly known as "Bond Connect") and support its future commissioning of Southbound Trading, the Government will enhance the efficiency and capacity of, and introduce new functions to, the Central Moneymarkets Unit (CMU). In the long run, the Government will develop CMU into a major central securities depository platform in Asia and even the world. In this connection, will the Government inform this Council:

- (1) of the current efficiency and capacity of CMU; whether it has assessed when the capacity of CMU will reach saturation;
- (2) of the level to which the Government plans to enhance the efficiency and capacity of CMU, and the timetable for the enhancement work; whether it has assessed the impacts that delays in the enhancement work will have on the bond market;
- (3) of the details of the work on introducing new functions to CMU (including the estimated expenditure and the implementation timetable), and the benefits that such functions may bring; and
- (4) of the specific plans and measures in place to develop CMU into a major central securities depository platform in Asia and even the world?

Reply:

President,

Established in 1990, the Central Moneymarkets Unit (CMU) is an important part of the monetary management infrastructure in Hong Kong. CMU offers issuance, clearing and settlement services for Exchange Fund Bills and Notes and provides efficient liquidity management for banks through its delivery-versus-payment linkage with the real time gross settlement system. Apart from the important role that it plays in monetary management, CMU's functions have been extended to provide depository services for debt securities issued by non-Government institutions. In recent years, CMU is also involved in overseas tendering and issuance of Ministry of Finance RMB Sovereign Bonds and People's Bank of China Bills, providing a full range of securities depository services to local, regional and international market participants. Furthermore, CMU has been providing important financial infrastructure

support for the implementation of a number of cross-border financial initiatives, especially the Bond Connect scheme.

Having consulted the Hong Kong Monetary Authority (HKMA), my reply to the four parts of the question is as follows:

(1) In 2020, the average daily turnover of local secondary market transactions processed by CMU was HK\$16 billion, representing an increase of 5.3 per cent over that of HK\$15.2 billion in 2016. As at end-2020, the total outstanding amount of the debt securities lodged with CMU was HK\$2,076 billion, representing an increase of 5.1 per cent over that of HK\$1,975 billion in 2016. CMU has been operating smoothly and its existing capacity can cope with the demand for the current product scope, turnover and operational model.

In addition, since the introduction of Bond Connect in 2017, the amount of debt securities held through CMU under the scheme and their average daily turnover have been increasing significantly. As at end-2020, the number of registered investors under Bond Connect was 2 352, representing an increase of 880 per cent when compared with that in end-2017. The average daily turnover under Bond Connect was RMB19.3 billion in 2020, representing an increase of 865 per cent over that in 2017.

With the phased inclusion of Mainland RMB bonds into various major global bond indices, the turnover of the Northbound Trading of Bond Connect will further increase. Furthermore, the future launch of the Southbound Trading of Bond Connect will bring more Mainland investors and overseas bond issuers to the bond market of Hong Kong. These will promote Hong Kong as an international bond centre with a cluster of Mainland and international bond investors as well as attracting intermediaries to operate through the bond market platform in Hong Kong. Enhancing the capacity, functions and efficiency of CMU would enable us to cope with the increasing market demand and continue to support and facilitate the development of the monetary management system and the bond market of Hong Kong, as well as to capture the future development opportunities presented to Hong Kong.

(2) to (4) The HKMA conducted a review of CMU last year and launched system enhancement work based on the review outcome in order to enhance the latter's function, efficiency and capacity, with a view to enabling Hong Kong to capture the opportunities presented by the further opening-up of the Mainland financial market more effectively, including preparing for the launch of the Southbound Trading of Bond Connect in future.

Specifically, the HKMA is working to further expand the functions and efficiency of CMU, which include promoting the automation and digitisation of operational flow; developing new user interfaces and reporting tools to facilitate the daily operation by users of the Northbound Trading of Bond Connect; launching new open application programming interface (open API); and strengthening the automatic interface with the central securities depositories in the Mainland, etc. At the same time, the HKMA continues to keep in view the latest market demand and will refine the various functions

of CMU and introduce other new functions as appropriate. The system enhancement work of CMU is being implemented in phases over four years and some of the enhancement initiatives can be launched within this year.

In the long term, we will further strengthen the connection between CMU and other international central securities depositories. Capturing the opportunities arising from the further opening-up of the Mainland financial market to the international market, we will continue to raise the profile and recognition of CMU in the Mainland and international investment community, thereby promote the development of CMU as a central securities depository in Asia and around the world.