

# **Memorandum of Understanding between the People’s Bank of China and Hong Kong Monetary Authority on Strengthening Supervisory Cooperation under Bond Connect**

To strengthen supervisory cooperation between the Mainland and Hong Kong under Bond Connect, ensure effective operation and prudent risk management of the scheme, the People’s Bank of China and Hong Kong Monetary Authority (collectively the “Parties”) entered into a Memorandum of Understanding on 30 June 2017 (“2017 MoU”). With the launch of the Southbound Trading under Bond Connect, the Parties updated the 2017 MoU and entered into a new Memorandum of Understanding (“2021 MoU”) on 14 Sept 2021. In order to further enhance supervisory cooperation under Bond Connect, promote RMB bonds as widely accepted eligible collaterals and expand the pool of trading instruments, the Parties entered into this Memorandum of Understanding (“This MoU”). The Parties have agreed that the 2021 MoU will be superseded by This MoU on the latter’s effective date.

## **Part I General Provisions**

### **1. Principles and validity**

On the basis of mutual trust and respect and in accordance with the laws of the two places and their respective statutory functions and remit, the Parties will provide each other with supervisory assistance and information sharing to the greatest possible extent.

### **2. Purpose**

By signing This MoU, the Parties aim to enhance the information sharing and other cooperation arrangements between the Parties, to, as far as possible, ensure transparency of information and to prevent supervisory discord, regulatory arbitrage and other related cross-boundary illegal and non-compliance activities. The Parties will, within their respective statutory functions and remit, use their best efforts to coordinate relevant institutions to ensure full compliance with and execution of the relevant laws and regulations of both places.

### **3. Applicability**

This MoU complements existing supervisory cooperation between the Parties and applies to supervisory cooperation under Bond Connect. Bond Connect includes “Northbound Trading” (i.e. offshore investors trading bonds in the Mainland market through cash bond and repo transactions), “Southbound Trading” (i.e. Mainland investors trading bonds in the Hong Kong market through cash bond and repo transactions) and related bond collateral management activities.

## **Part II Basic Principles of Mutual Market Access**

### **4. Market access**

The Parties will ensure, as far as possible, that investors subject to their supervision should satisfy the prevailing access requirements when entering the market of the other party.

### **5. Management of custodian accounts**

The Parties should, within their respective statutory functions and remit, oversee the custodian institutions to ensure effective segregation between proprietary and client assets held in the

nominee accounts, clients' ownership over the assets held on their behalf in the nominee accounts, and effective segregation between bonds held as performance guarantee and bonds that are not held for such purpose.

## **6. See-through supervisory arrangements**

The Parties should strengthen the reporting obligations of the financial infrastructure services institutions in the two places, including bond trading platforms, central securities depositories, and custodian and settlement banks. These obligations include information on investors, custody, usage of collateral bonds, bond freeze and non-trade transfers, secured claims or core trading, and cross-border fund remittance, etc. in order to ensure, as far as possible, the completeness of data collection and effectiveness of supervisory information, as well as to, through information exchange among the financial infrastructure services institutions in the two places, enable regulatory authorities to access timely, accurate and comprehensive information on trading, holdings, settlement status and usage of collateral bonds, etc. of end investors.

## **7. Settlement and clearing arrangements**

In line with the custodian arrangements, the Parties agree that relevant institutions can conduct transfers through multiple levels during settlement and clearing. The Parties recommend that investors should, as far as possible, conduct settlement on a delivery versus payment (DvP) basis.

Under Southbound Trading, Mainland central securities depositories do not provide cash pooling services.

## **8. Collateral management activities**

The Parties should, on a case by case basis, discuss and reach consensus on the specific scenarios applicable to bond collateral management activities. On this basis, the Parties should, within their respective statutory functions and remit, ensure that the financial infrastructure services institutions such as central securities depositories and custodian and settlement banks in the two places conduct collateral management activities effectively through bond freeze, non-trade transfers and other means in accordance with the laws and regulations of both places.

## **9. Currency conversion**

The Parties should strengthen supervisory cooperation, and implement currency conversion, settlement and other relevant arrangements under Bond Connect. The Parties should prevent illegal foreign exchange arbitrage and other illegal and non-compliant [translator's note: to tally with 16. below] activities under Bond Connect, and ensure stable and orderly cross-boundary fund settlements under Bond Connect.

# **Part III Information Exchange**

## **10. Information compilation**

The Parties should establish an arrangement for regular sharing of data on Bond Connect operations.

## **11. Exchange of information**

The Parties should establish a mechanism for information collection and reporting and should meet the other party's request for information for supervisory purposes as far as possible. When one party initiates an investigation into illegal and non-compliant [same as above] activities under Bond Connect, it should notify the other party.

### **Part IV Use of Information**

## **12. Scope of use**

The Parties should use non-public information and documents according to the purposes stated in their request for assistance as far as possible.

If one party intends to use information obtained from the other party for other purposes, it must obtain the other party's consent. The Parties should, as far as possible, facilitate and support one party's use of information provided by the other party.

## **13. Confidentiality of information**

Information obtained through request by one party to the other must only be used for the purposes stated at the time of request. The Parties should ensure all relevant information is kept confidential.

### **Part V Resolution**

## **14. Resolution arrangements for bonds**

The Parties consider that in case of bond default or bond issuers' failure to fulfil the terms of contracts, the rights and protection of the bond holders should be handled in accordance with the laws of the jurisdiction specified in the relevant contracts of the bonds.

## **15. Resolution arrangements for collaterals**

The Parties consider that in case the debtor fails to fulfil obligations under a maturing debt or other contractual terms, the rights and protection of the creditor should be handled in accordance with the laws of the jurisdiction on collaterals as specified in the relevant contracts for repo and other trading instruments. The Parties should coordinate with the financial infrastructure service institutions, including bond trading platforms, central securities depositories and custodian and settlement banks in the two places to provide services of agreed conversions, auctions, liquidations, non-trade transfers, etc. in accordance with the respective local laws and regulations so that creditor can handle the collaterals efficiently and effectively in accordance with local laws and regulations.

### **Part VI Execution Assistance**

## **16. Execution cooperation**

The Parties consider that execution cooperation under Bond Connect should be strengthened in accordance with the laws of the two places and the respective statutory remit of each party. Information about illegal and non-compliant activities discovered should be passed to the

relevant authorities timely to strengthen cooperation to combat cross-boundary illegal and non-compliant activities.

#### **17. Supervisory assistance by operating institutions**

The Parties will evaluate relevant registration and custodian institutions on the basis of relevant principles in the Principles for Financial Market Infrastructures (PFMI). The Parties should also, within their statutory functions and remit, ensure that the / various operating institutions and relevant institutions providing sub-custodian services under Bond Connect are subject to necessary supervision and fulfil their frontline supervisory obligations, including data compilation and onward reporting, etc.

### **Part VII Others**

#### **18. Investor protection**

The Parties should, as far as possible, ensure that Bond Connect investors are protected by the relevant laws of the place where trading and settlement takes place.

#### **19. Coordination in publication of information**

The Parties should sufficiently communicate before publishing media releases and other related matters under Bond Connect to ensure that the contents and timing of media releases are consistent.

#### **20. Liaison and consultation mechanism**

The Parties will hold liaison meetings regularly to discuss the operation and supervision of Bond Connect, as well as issues of mutual concern and interest to facilitate the execution of This MoU, resolve issues that may arise, and enhance various arrangements under Bond Connect.

#### **21. Contact persons**

The Parties should designate contact persons for such matters as arranging liaison meetings, media releases, making requests for assistance or information reporting, etc. The Parties should notify each other in writing if there is any change to the contact persons.

#### **22. Nature**

This MoU is only an indication of intent and does not intend to create any legally binding obligations on either party.

#### **23. Commencement**

This MoU shall take effect as it is signed by the People's Bank of China and Hong Kong Monetary Authority on 24 January 2024.

People's Bank of China

Hong Kong Monetary Authority

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Governor

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Chief Executive