

[Translation]

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"). In light of the launch of Southbound Trading under Bond Connect, the Parties have come to a consensus to enter into this Memorandum of Understanding ("This MoU") in order to supplement and enhance the 2017 MoU. The 2017 MoU will be superseded by This MoU on the latter's effective date.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) and "Southbound Trading" (i.e. Mainland investors trading bonds in the Hong Kong market).

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 of proprietary assets from client assets held in the nominee accounts. Clients have the ownership of the assets held on their behalf in the nominee account.

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 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 and settlement status, etc. of end investors.

7. Settlement and clearing arrangements

Transfers can be effected through multiple levels, commensurate with the custodian arrangement. Settlement should be conducted on a delivery versus payment (DvP) basis as far as possible.

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

8. 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 activities under Bond Connect, and ensure stable and orderly cross-boundary fund settlements under Bond Connect.

Part III Information Exchange

9. Information compilation

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

10. 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 activities under Bond Connect, it should notify the other party.

Part IV Use of Information

11. 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.

12. 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

13. Resolution arrangements

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.

Part VI Execution Assistance

14. 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-compliance activities discovered should be passed to the relevant authorities timely to strengthen cooperation to combat cross-boundary illegal and non-compliance activities.

15. 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 other operating institutions and 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

16. 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.

17. 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.

18. 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.

19. 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.

20. Nature

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

21. Commencement

This MoU shall take effect as it is signed by the People's Bank of China and Hong Kong Monetary Authority on 14 September 2021.

People's Bank of China

Governor

Hong Kong Monetary Authority

Chief Executive