

## **Interim Measures for the Administration of Mutual Bond Market Access between Mainland China and Hong Kong SAR**

*(The following English language translation was prepared for reference only. Please refer to <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3330621/index.html> for the official notice issued by the People's Bank of China which shall prevail.)*

**Article 1.** These Interim Measures are promulgated in accordance with the Law of the People's Republic of China on the People's Bank of China ("PBC Law") and other related laws and administrative regulations to regulate businesses relating to mutual bond market access between Mainland China and Hong Kong SAR, to protect the legitimate rights of Mainland and overseas investors, and to maintain the order of the bond markets.

**Article 2.** References in these Interim Measures to "mutual bond market access between Mainland China and Hong Kong SAR" mean the institutional arrangements under which Mainland and overseas investors may buy and sell bonds trading in Mainland China and Hong Kong SAR through the connected market infrastructures of the two bond markets ("Bond Connect"). Bond Connect includes the Northbound Trading and the Southbound Trading.

These Interim Measures apply to the Northbound Trading only. The Northbound Trading refers to the institutional arrangements of connectivity in trading, depository, settlement and other related activities between the infrastructures of bond markets in Mainland China and Hong Kong SAR that enable overseas investors in Hong Kong SAR and other countries and regions (the "Overseas Investors") to invest in Mainland China's Interbank Bond Market.

Measures for the Southbound Trading will be separately promulgated.

**Article 3.** Unless otherwise provided in these Interim Measures, the Northbound Trading shall abide by the trading and settlement laws and regulations currently in force in the markets in Mainland China and Hong Kong SAR, and related trading and settlement activities shall comply with the regulations and business rules of the place where the trading and settlement activities take place.

**Article 4.** Overseas Investors that satisfy requirements imposed by the People's Bank of China ("PBC") may invest in the Mainland China's Interbank Bond Market through the Northbound Trading. Bond instruments tradable by such Overseas Investors are all the bond instruments traded in the Mainland China's Interbank Bond Market.

Electronic trading platforms and other institutions recognised by the PBC may perform filing for Overseas Investors with the Shanghai Head Office of the PBC.

**Article 5.** The Hong Kong SAR bond registration and depository institution ("Offshore Depository") recognised by the Hong Kong Monetary Authority shall open a nominee holder account with onshore bond registration and depository institutions (each an

“Onshore Depository”) recognised by the PBC for the purpose of recording the outstanding amount of all bonds it is holding as the nominee holder.

The Onshore Depository shall provide bond registration and depository services to the Offshore Depository, and the Offshore Depository shall provide bond registration and depository services to bondholders that have opened nominee holder bond accounts and proprietary bond accounts with such Offshore Depository.

The aggregate amount of bonds as registered by the Offshore Depository for bondholders who have opened bond accounts with it shall equal to the outstanding amount of bonds registered by the Onshore Depository in the nominee holder account opened with such Onshore Depository.

Bonds purchased by Overseas Investors through the Northbound Trading shall be registered under the name of the Offshore Depository, and Overseas Investors shall be entitled to the rights and interests of the bonds according to law.

The “nominee holder” as referred to in this Article refers to an institution which is appointed by another party and which holds bonds on behalf of such party.

**Article 6.** Overseas Investors may participate in subscription for offerings in the Mainland China’s Interbank Bond Market through the Northbound Trading. The relevant Onshore Depository and Offshore Depository and other relevant institutions shall cooperate and ensure, after confirming the debtor-creditor relationship, registration and depository services are provided to bondholders in a timely manner.

**Article 7.** Overseas Investors will deliver trade instructions via the offshore electronic trading platform recognised by the PBC and enter into trades with other investors via the onshore electronic trading platform recognised by the PBC. The onshore electronic trading platform shall send trade confirmations to the Onshore Depository for settlement.

**Article 8.** The Onshore Depository shall provide bond settlement services on a DvP basis to the Mainland China’s Interbank Bond Market participants which have opened bond accounts with it and to the Offshore Depository. Bonds are transferred via the Onshore Depository’s bond system. Cash is paid under the RMB Cross-border Interbank Payment System.

The Offshore Depository shall provide bond settlement services to bondholders which have opened bond accounts with it.

**Article 9.** Onshore and offshore electronic trading platforms and depositories shall timely, accurately and completely record, inter alia, the trade, depository, settlement and other data of Overseas Investors.

Depositories shall enter into agreements at each level to agree on the payment of principal and interest, set out responsibilities and ensure payment to each investor is in full and on schedule. A lower level depository shall report information about Overseas Investors and their depository and settlement data to an upper level depository in a timely manner level

by level. A lower level depository is responsible for the authenticity, accuracy and completeness of the data reported.

The Onshore Depository or other institutions appointed by the PBC shall timely, accurately and completely report cross-border RMB payment information to the RMB Cross-border Payment Management Information System (RCPMIS). The electronic trading platforms and depositories shall set up a mechanism for information sharing and communication.

**Article 10.** Overseas Investors may invest with their own RMB or foreign currency funds. In the case of foreign currency investments, Overseas Investors may, through the bondholders, conduct foreign currency exchange with a Hong Kong RMB business clearing bank or an offshore RMB business participating bank in Hong Kong SAR which has permission to trade in the Mainland China's Interbank Foreign Exchange Market (hereinafter, together known as "Hong Kong SAR Settlement Banks"). Positions derived in such manner at Hong Kong SAR Settlement Banks can be squared in the Mainland China's Interbank Foreign Exchange Market.

In principle, in the case of foreign currency investments, Overseas Investors shall exchange proceeds into foreign currencies on maturity or sale of the bonds and remit the proceeds out via the Hong Kong SAR Settlement Banks.

**Article 11.** In the case of foreign currency investments, bondholders shall open a RMB cash account with a Hong Kong SAR Settlement Bank for the specific purpose of currency exchange and settlement under the Northbound Trading.

**Article 12.** Overseas Investors may, through the bondholders, hedge foreign exchange risks under the Northbound Trading with a Hong Kong SAR Settlement Bank. Positions derived in such manner at Hong Kong SAR Settlement Banks can be squared in the Mainland China's Interbank Foreign Exchange Market.

**Article 13.** Currency exchange under the Northbound Trading shall be managed through the RMB purchase and sale business. Hong Kong SAR Settlement Banks shall comply with relevant rules on anti-money laundering and anti-terrorism financing and the RMB purchase and sale business, fulfil obligations such as anti-money laundering and anti-terrorism financing, authenticity verification, the compilation of statistics and reporting of information, and appropriately segregate for bondholders their account of self-owned RMB and their account of purchased or sold RMB.

When squaring positions in the Mainland China's Interbank Foreign Exchange Market, a Hong Kong SAR Settlement Bank shall ensure that currency exchange and foreign exchange risk hedging conducted through it by its relevant Overseas Investors are based on genuine and reasonable needs under the Northbound Trading.

**Article 14.** The PBC shall supervise and regulate the Northbound Trading in accordance with law, and shall establish regulatory cooperation arrangements with the Hong Kong Monetary Authority and relevant regulatory authorities in other related countries or regions so to jointly protect investors' legitimate interests in cross-border investment and strengthen anti-money laundering supervision.

The PBC, together with the national foreign exchange administrative authority, shall supervise and regulate activities under the Northbound Trading in accordance with law, such as the RMB purchase and sale business, outbound and inbound remittance of funds, foreign exchange risk hedging, compilation of statistics and information reporting, and shall strengthen cross-border regulatory cooperation with the Hong Kong Monetary Authority and relevant regulatory authorities in other related countries or regions to prevent use of the Northbound Trading for activities such as illegal interest arbitrage or exchange arbitrage.

The PBC and relevant regulatory departments may promptly require the provision of Northbound Trading foreign investor data.

**Article 15.** Any breach of laws and regulations, these Interim Measures and regulations of the Mainland China's Interbank Bond Market and the Interbank Foreign Exchange Market shall be dealt with under administrative and regulatory measures imposed by the PBC together with the national foreign exchange administrative authority in accordance with law. Where administrative punishment is involved, penalties shall be imposed in accordance with laws and regulations such as the PBC Law, the PRC Administrative Penalty Law and the PRC Foreign Exchange Administrative Regulations. If a criminal offence is suspected, the case shall be transferred to judicial authorities in accordance with law and shall be subject to criminal liabilities.

**Article 16.** The electronic trading platforms and depositories recognised by the PBC shall promulgate relevant Northbound Trading business rules in accordance with these Interim Measures and implement such business rules after their submission to the PBC for approval.

**Article 17.** These Interim Measures shall be interpreted by the PBC.

**Article 18.** These Interim Measures shall become effective from the date of publication.