

The People's Bank of China Order [2017] No. 1

To regulate the businesses relating to the mutual access and connection of bond markets in Mainland China and Hong Kong, to protect the legitimate rights and interests of onshore and offshore investors, and to maintain the order of the bond markets, the People's Bank of China has promulgated the *Interim Measures for the Administration of the Mutual Bond Access between Hong Kong and Mainland China*, which have been passed at the sixth People's Bank of China Governor's Meeting on 19 June 2017, and are hereby published and shall be effective as of the date of publication.

Governor: Zhou Xiaochuan

21 June 2017

Interim Measures for the Administration of the Mutual Bond Access between Hong Kong and Mainland China

Article 1. These Interim Measures are promulgated in accordance with the *PRC People's Bank of China Law* and other related laws and administrative regulations to regulate the businesses relating to the mutual access and connection of bond markets in Mainland China and Hong Kong, to protect the legitimate rights and interests of onshore and offshore investors, and to maintain the order of the bond markets.

Article 2. References in these Interim Measures to "mutual access and connection of bond markets in Mainland China and Hong Kong" mean the institutional arrangements where onshore and offshore investors may buy and sell bonds in circulation in bond markets in Mainland China and Hong Kong through the connection of the market infrastructures of these two bond markets, known as the **Bond Connect** which includes Northbound Link and Southbound Link.

These Interim Measures apply to Northbound Link only. Northbound Link means the institutional arrangements in relation to trading, depository, settlement and other related activities between the market infrastructures of bond markets in Mainland China and Hong Kong that enable offshore investors in Hong Kong and other countries and regions (hereby known as the "**Offshore Investors**") to invest in the Mainland China Interbank Bond Market.

The measures for Southbound Link will be separately promulgated.

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Article 3. Unless otherwise provided in these Interim Measures, Northbound Link shall abide by the laws and regulations currently in force in the markets in Mainland China and Hong Kong, and the 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. Offshore Investors that satisfy the requirements imposed by the People's Bank of China may invest in the Mainland China Interbank Bond Market through Northbound Link. The bond instruments such Offshore Investors can invest in are all the bond instruments traded in the Mainland China Interbank Bond Market.

Electronic trading platforms and other institutions recognised by the People's Bank of China may conduct the filing for Offshore Investors with the the People's Bank of China Shanghai Headquarter.

Article 5. The Hong Kong bond registration and depository institution (hereby known as the "**Offshore Depository**") recognised by the Hong Kong Monetary Authority shall open nominee holder account(s) with onshore bond registration and depository institutions (hereby known as "**Onshore Depositories**") recognised by the People's Bank of China for the purpose of recording the outstanding amount of the bonds it is holding as the nominee holder.

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

The aggregate amount of bonds as registered by the Offshore Depository for the 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.

The bonds purchased by Offshore Investors through Northbound Link shall be registered under the name of the Offshore Depository, and Offshore Investors shall be entitled to enjoy the rights and interests of the securities according to law.

The "**nominee holder**" as referred to in this clause shall mean an institution who was appointed by another person and is holding bonds on behalf of such other person.

Article 6. Offshore Investors may participate in the offering subscriptions of the Mainland China Inter-bank Bond Market through Northbound Link. The relevant Onshore Depositories and Offshore Depository shall cooperate with each other and shall, after confirming the debtor-creditor relationship, ensure to provide registration and depository services to the bondholders in a timely manner.

Article 7. Offshore Investors will deliver trade instructions via the offshore electronic trading platform recognised by the People's Bank of China and enter into trades with other

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investors via the onshore electronic trading platform recognised by the People's Bank of China. The onshore electronic trading platform shall send the trade confirmations to the Onshore Depository for settlement.

Article 8. The Onshore Depositories shall provide the bond settlement service to the Mainland China Interbank Bond Market investors who have opened bond accounts with it and the Offshore Depository and such settlement is to take place on a DVP basis. Transfers of bonds shall be made through the Onshore Depositories' bond accounting system and payments of cash shall be made through the RMB Cross-border Interbank Payment System.

The Offshore Depository will provide bond settlement services to bondholders who have opened bond accounts with it.

Article 9. Onshore and offshore electronic trading platforms and depositories shall record, *inter alia*, the data of Offshore Investors' trade, depository, settlement in a timely, accurate and complete manner.

Each depository shall enter into an agreement with each of the other depositories of the immediate next level. For the purpose of ensuring the timely and full payment of principal and interests of bonds to each investor, such agreement shall address related issues regarding the payment of principal and interest and the responsibilities of each party. The lower level depository shall report the Offshore Investors' information and its depository and settlement data to the upper level depository in a timely manner, and the lower level depository is responsible for the authenticity, accuracy and completeness of the data.

The Onshore Depositories or the institutions appointed by the People's Bank of China shall report the cross-border RMB payment information to the RMB Cross-border Payment Management Information System (RCPMIS) in a timely, accurate and complete manner.

Article 10. Offshore Investors may invest with their own RMB or foreign currency funds. In the case of foreign currency investments, Offshore Investors may, through the bondholders, conduct foreign currency exchange with Hong Kong RMB business clearing banks or offshore RMB business participating banks which have been approved to trade on the onshore inter-bank foreign exchange market (hereinafter, together known as the "**Hong Kong Settlement Banks**"). The positions derived by the Hong Kong Settlement Banks can be squared on the onshore inter-bank foreign exchange market.

In principle, in the case of foreign currency investments, upon maturity or the sale of the bonds, if an Offshore Investor would no longer invest through Northbound Link with such proceeds, the Offshore Investor shall exchange such proceeds with Hong Kong Settlement Banks back into the relevant foreign currency and remit the foreign currency through Hong Kong Settlement Banks.

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Article 11. In the case of foreign currency investments, the bondholders shall open an RMB capital account with a Hong Kong Settlement Bank, such account being for the specific purpose of currency exchange and settlement activities under Northbound Link.

Article 12. Offshore Investors may, through the bondholders, hedge the foreign exchange risk under Northbound Link with a Hong Kong Settlement Bank. The positions derived by the Hong Kong Settlement Banks can be squared on the onshore inter-bank foreign exchange market.

Article 13. Currency exchange under Northbound Link shall be managed through the RMB purchase and sale business. Hong Kong Settlement Banks shall comply with the relevant rules regarding anti-money laundering, counter-terrorist financing, the RMB purchase and sale business and so on, and shall fulfil the obligations such as anti-money laundering, counter-terrorist financing, authenticity verification, the compilation of statistics and reporting of information. Hong Kong Settlement Banks shall also, with respect to the bondholders, adopt an appropriate approach to segregate the account of self-owned RMB and the account of purchased or sold RMB of such bondholders.

When squaring positions in the onshore inter-bank foreign exchange market, a Hong Kong Settlement Bank shall ensure that the currency exchange and foreign exchange risk hedging conducted through it by its relevant Offshore Investors are based on genuine and reasonable needs under Northbound Link.

Article 14. The People's Bank of China shall conduct supervision and regulation of Northbound Link in accordance with law, and shall establish regulatory cooperation arrangements with the Hong Kong Monetary Authority and the relevant regulatory authorities in other related countries or regions so to jointly protect investors' legitimate interests in cross-border investments and strengthen anti-money laundering supervision.

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

The People's Bank of China and the relevant regulatory departments may promptly require the provision of Northbound Link Offshore Investors data.

Article 15. Any breach of the relevant provisions under laws and regulations, these Interim Measures and the regulations of the Mainland China Inter-bank Bond Market and the Inter-bank foreign exchange market shall be subject to administrative and regulatory measures

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imposed by People's Bank of China together with the national foreign exchange administrative authority in accordance with law. If an administrative liability is incurred, penalties shall be imposed in accordance with law and regulations such as the *PRC People's Bank of China Law*, the *PRC Administrative Penalty Law* and the *PRC Foreign Exchange Administrative Regulations*. If a criminal offence is suspected, the relevant cases shall be transferred to judicial organs and shall be subject to criminal liabilities in accordance with law.

Article 16. The electronic trading platforms and depositories recognised by the People's Bank of China shall promulgate the relevant Northbound Link business rules in accordance with these Interim Measures and, after submitting to the People's Bank of China for its approval, implement such business rules.

Article 17. These Interim Measures shall be interpreted by the People's Bank of China.

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