

Press Release
LCQ10: Mutual bond market access between
Hong Kong and the Mainland

Wednesday, June 28, 2017

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 28):

Question:

On the 16th of last month, the People's Bank of China and the Hong Kong Monetary Authority published a joint announcement that they had approved the relevant institutions to collaborate in establishing mutual bond market access between Hong Kong and the Mainland (Bond Connect). Bond Connect is an arrangement that enables Mainland and overseas investors to trade bonds tradable in the Mainland and Hong Kong bond markets through the connection between the Mainland and Hong Kong financial infrastructure institutions. Bond Connect will start with Northbound Trading (i.e. Hong Kong and other overseas investors to invest in the China Interbank Bond Market through Hong Kong) and be extended to Southbound Trading (i.e. Mainland investors to invest in the Hong Kong bond market) in future. Bond Connect is an important measure of the Central Government to support Hong Kong's development and deepen the cooperation between the Mainland and Hong Kong. It is conducive to the consolidation and enhancement of Hong Kong's status as an international financial centre, the steady and progressive opening-up of the Mainland financial markets, and the diversification of investment channels for overseas investors. Regarding the launch of Bond Connect, will the Government inform this Council:

(1) whether there are other factors, apart from the need to make rules and legislation and undertake system development, etc., that have made the authorities to make the arrangement for Bond Connect to begin with Northbound first and Southbound later; whether the authorities have drawn up a timetable for launching Southbound Trading of Bond Connect; if so, of the details; if not, whether they will draw up the relevant timetable; and

(2) given that ratings agency Moody's has downgraded China's credit rating

from Aa3 to A1 and Hong Kong's long-term credit rating from Aa1 to Aa2 on the 24th of last month, whether the authorities have assessed if the downgrading of the credit ratings will (i) adversely affect the benefits of Northbound Trading and (ii) affect the date of launching Southbound Trading; if they have assessed, of the outcome; if not, whether they will conduct the relevant assessment?

Reply:

President,

Our response to the two parts of the question is as follows:

(1) Northbound Trading will commence first in the initial phase of Bond Connect, partly taking into account the demand from international investors for investing in the Mainland bond market. Further, Bond Connect is a connection between two different trading and settlement regimes in the Mainland and Hong Kong bond markets involving several financial infrastructure platforms for trading and settlement of the two places. At this stage, Northbound Trading is more technically ready and therefore will be launched first. Southbound Trading will be explored in due course and there is no specific timetable in this regard.

(2) We believe that Moody's rating decisions will not impact on the work to put in place Bond Connect. In fact, the Mainland economy has stabilised with an improved outlook and its structural economic reforms are seeing results. Market participants in general also maintain a positive view on the Mainland's economic prospects. Furthermore, factors such as the continued progress of Renminbi (RMB) internationalisation, inclusion of RMB in the International Monetary Fund's Special Drawing Right currency basket and inclusion of the Mainland bond market in major global fixed income indices are expected to boost foreign investors' demand for RMB bonds for asset allocation purpose. Bond Connect will enable overseas investors to enter the Mainland bond market more conveniently and offer a more efficient trading and settlement platform.

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