



NOTICE OF AUTHORIZATION TO PROVIDE AUTOMATED TRADING SERVICES

ISSUED TO BOND CONNECT COMPANY LIMITED

《債券通有限公司》

UNDER SECTION 95 OF THE SECURITIES AND FUTURES ORDINANCE

INTRODUCTION

Background

1. On 16 May 2017, the People's Bank of China (**PBoC**) and the Hong Kong Monetary Authority (**HKMA**) issued a joint announcement noting that they had approved China Foreign Exchange Trade System (National Interbank Funding Center) (**CFETS**), China Central Depository & Clearing Co., Ltd (**Chinabond**) and Shanghai Clearing House (**SHCH**) (collectively, **the Mainland Financial Infrastructure Institutions**), together with Hong Kong Exchanges and Clearing Limited (**HKEX**) and Central Moneymarkets Unit (**CMU**) (collectively, **the Hong Kong Financial Infrastructure Institutions**), to collaborate in establishing mutual bond market access between Hong Kong and Mainland China (**Bond Connect**, 內地與香港債券市場互聯互通合作).
2. Among other things, the joint announcement states Bond Connect is an arrangement that will enable Mainland and overseas investors to trade bonds tradable in the Mainland and Hong Kong bond markets through connection between the Mainland and Hong Kong Financial Infrastructure Institutions.
 - (1) Northbound Trading commenced on 3 July 2017, i.e. overseas investors from Hong Kong and other countries and areas (overseas investors) to invest in the China Interbank Bond Market through mutual access between the Hong Kong and Mainland Financial Infrastructure Institutions in respect of trading, custody, settlement, etc. On 15 September 2021, PBoC and HKMA jointly announced that Southbound Trading will commence on 24 September 2021, i.e. Mainland investors to invest in the Hong Kong bond market through mutual access between the Financial Infrastructure Institutions of the two places in respect of trading, custody, settlement, etc..
 - (2) Bond Connect will abide by the relevant laws and regulations of the bond markets of the two places.

Northbound Trading follows the current policy framework for overseas participation in the China Interbank Bond Market and at the same time respects international norms and practices. Southbound Trading is governed by all applicable laws and regulations, including but not limited to the laws and regulations of Mainland, Hong Kong and/or other applicable jurisdictions, regulatory requirements, and the rules that may be issued by CFETS from time to time.

The scope of eligible investors and products under Northbound and Southbound Trading will be consistent with the scope specified in the relevant notices promulgated by PBoC.

3. On 4 July 2022, PBoC, Securities and Futures Commission (**SFC**) and HKMA jointly announced a new mutual market access program that CFETS and SHCH (collectively “Mainland Infrastructure Institutions”), together with OTC Clearing Hong Kong Limited (**OTC Clear**) (“Hong Kong Infrastructure Institution”), will collaborate to develop mutual access between the Hong Kong and Mainland interest rate swap markets (**Swap Connect**, 香港與內地利率互換市場互聯互通合作).
4. Swap Connect will abide by the relevant laws and regulations of both markets. Northbound link will follow the existing policy framework for the opening-up of the Mainland interbank financial derivatives market and take into account international practices.
5. CIBM Direct is another access arrangement, apart from Bond Connect, for eligible overseas investors to invest in China Interbank Bond Market (CIBM). Eligible overseas investors may trade in CFETS directly, via onshore agent banks, or through third-party platforms and may participate in bond subscription. Overseas investors shall abide by the relevant laws and regulations governing CIBM when making investment in CIBM.

Bond Connect

6. Bond Connect will entail the following.
 - (1) A northbound trading link (**Northbound Trading Link**) is established between CFETS and selected platform operators (**Access Platforms**). This enables eligible investors outside the Mainland (**eligible offshore investors**), who are participants of an Access Platform, to –
 - (a) trade certain bonds on the onshore interbank bond market operated by CFETS (**onshore bond market**), and
 - (b) do so directly, using electronic trade execution facilities.
 - (2) A southbound trading link (**Southbound Trading Link**) is established between (i) CFETS and Access Platforms, and (ii) CFETS and selected market makers (**Designated Market Makers**). This enables eligible investors in the Mainland (**eligible onshore investors**), who are participants of CFETS, to –
 - (a) trade certain bonds on the offshore bond market in Hong Kong (**offshore bond market**), and
 - (b) do so directly, using electronic trade execution facilities.
 - (3) A settlement link (**Settlement Link**) is established between the CMU and each of Chinabond and the Shanghai Clearing House. This facilitates the settlement and custody of bonds traded and/or subscribed by eligible offshore investors on the onshore bond market and eligible onshore investors on the offshore bond market via Bond Connect. The CMU also provides services to facilitate cross-border payment for trades executed via Bond Connect.
 - (4) Eligible offshore/onshore investors may participate in primary market subscription of certain bonds through the electronic issuance facilities operated by CFETS.

- (5) Bond Connect Company Limited 《債券通有限公司》 (BCCL), a company incorporated in Hong Kong and formed by CFETS and HKEX, provides various services to support and facilitate the operation of Bond Connect, including –
- (a) conducting marketing, promotional and investor education activities relating to Bond Connect,
 - (b) identifying suitable platform operators to provide services as Access Platforms, as well as negotiating and concluding the terms of their respective service agreements (for northbound trading only),
 - (c) liaising between Access Platforms and CFETS, including for the purposes of enforcing the terms of their respective service agreements (for northbound trading only),
 - (d) providing administrative support and assistance in connection with the admission of eligible offshore investors who wish to trade via Bond Connect (for northbound trading only),
 - (e) providing support and assistance in connection with primary market subscription of certain bonds through the electronic issuance facilities operated by CFETS, and
 - (f) providing such other support and assistance as may be required in relation to operation of Bond Connect and its use by Access Platforms and eligible offshore/ onshore investors, including any administrative, monitoring or investigation support and assistance.

Swap Connect

7. Among other things, the joint announcement states:

Swap Connect is an arrangement that will enable eligible investors to participate in the financial derivatives markets in the Mainland and Hong Kong through a connection between Infrastructure Institutions in both places. At the initial stage, Northbound link will commence first, allowing eligible investors from Hong Kong and other countries and regions (eligible overseas investors) to participate in the Mainland interbank financial derivatives market through mutual access between Hong Kong and Mainland Infrastructure Institutions in respect of trading, clearing and settlement. Southbound link, which allows Mainland investors to access the Hong Kong financial derivatives market will be explored in due course. Initially, interest rate swaps (IRS) will be eligible under Swap Connect with other products to be included in due course depending on market conditions.

8. On 5 May 2023, PBoC, SFC and HKMA jointly announced that Northbound Trading and Clearing will commence on 15 May 2023.
9. BCCL provides various services to support and facilitate the operation of Swap Connect, including –
- (1) conducting marketing, promotional and investor education activities relating to Swap Connect,
 - (2) onboarding eligible overseas investors to Swap Connect, and



- (3) providing such other support and assistance as may be required in relation to operation of Swap Connect and its use by eligible overseas investors, including any administrative, monitoring or investigation support and assistance.

CIBM Direct

10. BCCL facilitates the operation of CIBM Direct by providing support and assistance in connection with primary market subscription of certain bonds through the electronic issuance facilities operated by CFETS.

Application submitted

11. The services to be provided by BCCL in connection with Bond Connect, Swap Connect and CIBM Direct constitute the provision of automated trading services (as defined in the SFO, **ATS**). BCCL has accordingly applied, under section 95(2) of the SFO, to be authorized to provide ATS.

AUTHORIZATION

12. In view of the matters described in paragraphs 1 to 11 above, and pursuant to section 95(2) of the SFO, the SFC hereby authorizes BCCL to provide ATS for the purposes of providing services to support and facilitate the operation of Bond Connect, Swap Connect and CIBM Direct, and subject to the conditions set out in paragraphs 13 to 18 below.

CONDITIONS

General

13. In providing ATS, BCCL must conduct its business, operations and affairs in a manner that is honest, fair and consistent with the principles, procedures and standards reflected in the SFC's Guidelines on the Regulation of Automated Trading Services.

Operations

14. BCCL shall only provide ATS for the purposes of supporting and facilitating the operation of Bond Connect, Swap Connect and CIBM Direct.
15. BCCL shall not enter into any agreement with a platform operator to provide services as an Access Platform under Northbound Trading Link of Bond Connect unless it has first given sufficient prior notification, in writing, to the SFC of its intention to do so.

Reporting and disclosure requirements

16. BCCL must inform the SFC of the following as soon as practicable after becoming aware of the same –
 - (1) any material change to information provided in connection with its ATS applications,
 - (2) any material change to the status or access rights of any Access Platform providing services under Northbound Trading Link of Bond Connect,



- (3) any failures or defects arising in connection with the operation of Bond Connect, Swap Connect and CIBM Direct, and remedial steps taken, and
 - (4) any breach, or potential breach, of any of the conditions of BCCL's authorization to provide ATS.
17. BCCL must provide to the SFC monthly reports relating to its business and operations, to any trading conducted through Bond Connect, and to any primary market subscription through Bond Connect and CIBM Direct. Such reports should be provided within two weeks after the end of the relevant month, and should include such information as the SFC may from time to time specify.
18. BCCL must provide to the SFC, within the time and in the manner specified, such information and documents relating to its business and operations, or to any transactions conducted through Bond Connect, Swap Connect and CIBM Direct, as the SFC may at any time and from time to time reasonably request.

SECURITIES AND FUTURES COMMISSION
DATED: 6 October 2023