

2023

Educational Booklet

(For Professional Investors Only)

Brief Introduction of Two Key Access Channels to CIBM

English Version

Updated in September 2023



Brief introduction of the two key channels to access CIBM - CIBM Direct and Bond Connect

In 2016, The People's Bank of China (PBC) issued "Notice [2016] No.3" to further open up CIBM to allow different types of overseas financial institutions (including the funds, mandates and other products that they manage or issue) to invest in China's interbank bond market (CIBM) via CIBM Direct channel. Under CIBM Direct, overseas investors are allowed to directly open accounts with Chinese domestic CSDs for settlement and custody, holding bonds in its own name.

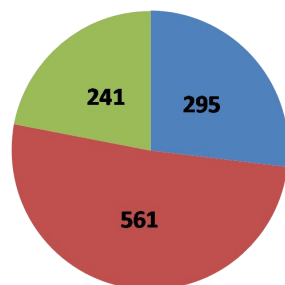
In 2017, "Bond Connect" was launched to allow overseas investors to invest in CIBM through establishing connectivity between the Hong Kong and mainland financial infrastructures, allowing overseas investors to settle and hold bonds via nominee account structure instead of opening onshore accounts.

As many overseas investors wish to learn more about the features of these two channels: **CIBM Direct** and **Bond Connect**, this booklet aims to give an overview of the usage and key features of the respective channels.

1. Usage

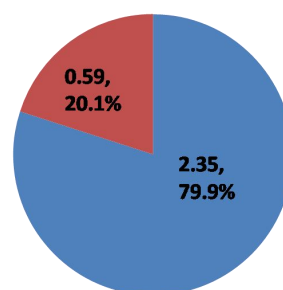
At the end of June 2023, there are 1097 overseas institutional investors which have participated in CIBM. Their total bond holdings amounted to RMB 3.28 trillion, accounting for approximately 2.5% of the total volume in CIBM. Among them, RMB 2.94 trillion (around 90%) was under depository at China Central Depository & Clearing Co.,Ltd. (CCDC). In June 2023, the total trading volume of overseas investors at CCDC was RMB 1.27 trillion.

Number of Institutions¹



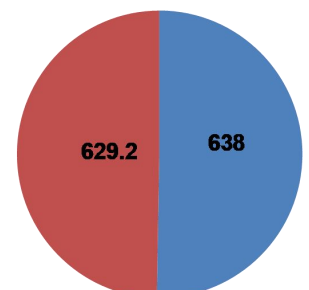
■ CIBM Direct ■ Bond Connect ■ Dual Access

Bond Holding Volume²
(In RMB Trillion)



■ CIBM Direct ■ Bond Connect

Bond Trading Volume³
(In RMB Billion)



■ CIBM Direct-cash bond and repo
■ Bond Connect-cash bond

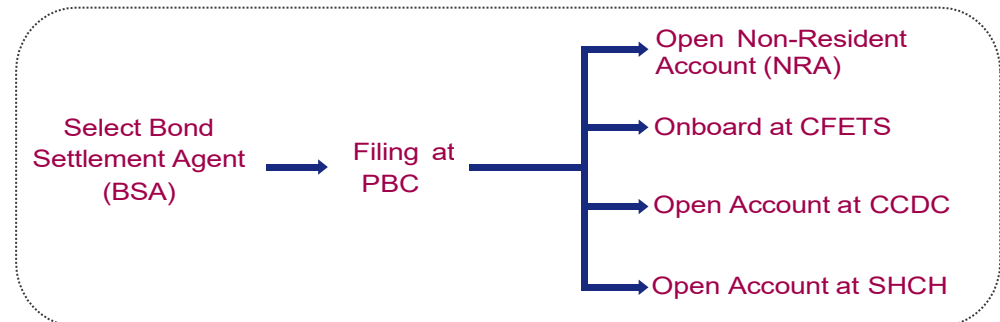
1. Statistical institution entity level only, excluding the number of products.

PBC Shanghai Head Office link: <http://shanghai.pbc.gov.cn/fzhshanghai/113595/4995363/index.html>

2 & 3. Based on statistics of holding & trading volume at CCDC, and the trading volume includes cash bond and repo.

2. Application Procedure

Under **CIBM Direct**, the lead time for registration is about 1 to 2 months. The process is as follows:



(CIBM Direct - Onshore Direct Holding)

To further facilitate market entry, PBC Shanghai Head Office issued the “Circular on Updating the Filing Form for Investment by Foreign Institutions”¹ on March 8th, 2021. PBC, together with State Administration of Foreign Exchange (SAFE) and China Securities Regulation Commission (CSRC), released [2022] No.4 announcement² on May 27th 2022. These regulations further facilitate overseas investors’ investment in the China bond market by stipulating that:

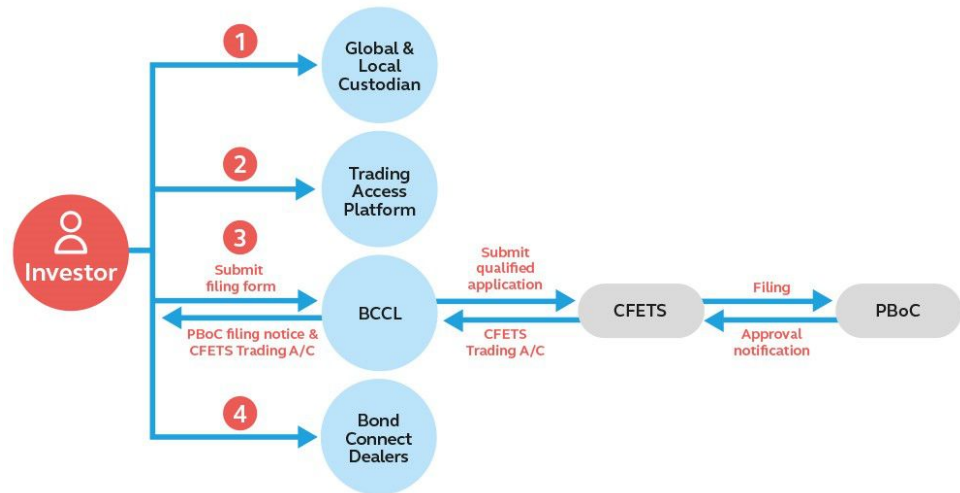
- 1) From March 2021, overseas investors would no longer need to lodge applications on a product-by-product basis. Applications will only need to be filed with PBC at an entity level (The same rule applies to Bond Connect as well); and
- 2) From July 2022, overseas investors would no longer need to file a BSA Agreement with the PBC.

1. PBC Shanghai Head Office link: <https://ibrs.chinamoney.com.cn/IBRSW/>

2. PBC website link: <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4565520/index.html>

In addition, drawing on international practices to further streamline the account opening process, CCDC has launched a BSA version of the client service agreement in January 2022. After the BSA signs this agreement, the investors would no longer need to directly sign any relevant agreement with CCDC again.

Under **Bond Connect**, the lead time for registration is about 1 month. The process is as follows*:



(Bond Connect - Offshore Multi-tiered Holding)

1. Approach a Global / Local Custodian for CMU account numbers
2. Contact with Recognized trading access platform(s)
3. BCCL Application Process
4. Establish trade counterparty relationship with an onshore dealer

*Bond Connect Link:

<https://www.chinabondconnect.com/en/Northbound/Onboarding/Guidance.html>

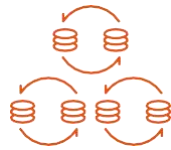
3. Eligible Tradings

Under **CIBM Direct**, eligible tradings include cash bond, bond lending, bond forward, interest rate swap, forward rate agreement, FX derivatives, etc. Repo is open to overseas sovereign institutions, offshore RMB clearing banks and participating banks.

Under **Bond Connect**, the current regulations allow overseas investors to trade cash bonds, FX derivatives and interest rate swaps.

[2022] No.4 announcement stipulates that overseas investors who are permitted to enter CIBM can also invest in the **exchange market** directly or through connectivity between CIBM and exchange market. Besides, In July 2022, the PBC, SFC and HKMA jointly announced the launch of the "**Swap Connect**" scheme, of which the Northbound Swap Connect has been implemented in May 2023, allowing overseas investors to trade interest rate swaps in the Mainland.

CIBM Direct



Cash Bond (CIBM & exchange market*),
Repo, IRS, FRA, Bond Lending, Bond
forward, FX derivatives, etc.

Bond Connect



Cash Bond (CIBM & exchange market*),
FX derivatives, IRS




*The interconnection mechanism is under development.

4. Trading Counterparties

Under **CIBM Direct**, overseas investors can trade either via BSA or via RFQ. Under the BSA route, one can trade with 30,000+ market participants (amongst which about 4% are overseas institutions). Under the RFQ route, there are 92 onshore market makers which can provide quotations to overseas investors.

Under **Bond Connect**, overseas can trade via RFQ. There are 59 onshore market makers which can provide quotations to overseas investors.

Number of trading counterparties for the two channels:

CIBM Direct		Bond Connect
 30000+ Market participants via BSA	 92¹ Market makers via RFQ	 59² Market makers via RFQ

1. CFETS website link: <https://www.chinamoney.com.cn/english/mdtmmbrmm/>

2. Bond Connect website link: <https://www.chinabondconnect.com/en/Northbound/Trading-And-Settlement/Market-Makers.html>

5. Trading Access Platforms

Under **CIBM Direct**, Bloomberg, Tradeweb & MarketAxess have connected with CFETS to support electronic execution via RFQ. Besides, Bloomberg can support voice confirmation via BSA.

Under **Bond Connect**, Bloomberg, Tradeweb & MarketAxess also have connected with CFETS to provide overseas investors with RFQ facilities.



6. Settlement Instruction Cut-off Time

Under **CIBM Direct**, the settlement instruction cut-off time for T+0 transactions at CCDC is Beijing time 17:00.

Under **Bond Connect**, the settlement instruction cut-off time for bond transactions at CMU is Beijing time 15:00, to ensure that the cross-border transactions can be completed before CCDC's cut-off time.

Cut-off time of the two access channels is as follows:

	CIBM Direct		Bond Connect	
	T+0	T+1 to T+N	T+0	T+1 to T+N
Cash Bond	17:00	20:00*	15:00	15:00
Other Products		17:00	/	/

*Starting from September 21, 2020, CFETS extended the CIBM cash bond trading period to 20:00.

7. Total Costs

For both access channels, common base components of cost include the trading fee, the settlement fee, and the E-trading platform fee.

For **CIBM Direct**, additional cost include the fees charged by the BSA, and the account opening fees charged by CCDC and SHCH.

For **Bond Connect**, additional cost include service fees charged by BCCL, and the fees charged by the custodian banks, (which reflect part of fees¹ charged by CMU to custodian banks, including account maintenance fees, custodian fees, transaction fees and etc.).

Detailed fee structure of two access channels is as follows:

Fees (charged by)	CIBM Direct	Bond Connect
Trading Fee (CFETS)	0.025 bps of transaction notional value (capped at RMB 1,000 per transaction)	
Settlement Fee (CCDC&SHCH)	HKD 200/RMB 150 per cash bond transaction	
E-trading Platform Execution Fee (Bloomberg, Tradeweb & MarketAxess)	Variable, depending on the bond maturity and notional value of the trades. Please check with the E-trading platforms for details on the fees chargeable.	
Fee ² charged by service providers	BSA related fees. Charged by trading volume, asset under custody, etc. (please check with the BSAs for details)	Global Custodian & Local Custodian related fees. Charged by trading volume, asset under custody, etc. (please check with the custodian banks for details)
Service Fee (BCCL)	-	0.15 bps for tenor <=1 year 0.30 bps for tenor >1 year (based on notional value of the trade)
Account Fee (CIBM Direct: CCDC&SHCH; Bond Connect: CMU)	One-off charge of RMB 500 for each investor	HKD 2,000 each month for each CMU member(i.e. custodian banks). The CMU member then apportions the fee amongst investors, which is reflected in the custodian related fees mentioned above. Please check with CMU members for details.The same as below.
Custodian Fee (CMU)	-	0.40 bps - first RMB 15bn 0.35 bps from RMB 15bn to 20bn 0.30 bps above RMB 20bn
Transaction Fee (CMU)	-	HKD 200 per transaction



1. Only some of the fees charged by CMU to its members are listed in the table, and a breakdown of the fees can be found on the Bond Connect website.

Website link: <https://www.chinabondconnect.com/en/Northbound/Rules-And-Policy/Service-Fee.html>

2. Fees charged by BSAs & Custodian banks vary with institutions, and are charged according to a number of factors. For details, please check with the relevant providers directly.

8. FX Hedging

Regarding CNY FX Hedging, both access channels allow an overseas investor to hedge with counter-parties.

CIBM Direct	Bond Connect
	
Hedge with onshore banks	Hedge with HK FX settlement banks
Unlimited quantity of banks	Up to 3 banks

(1) CIBM Direct

According to the “Circular of SAFE on the Management of Funds for Foreign Institutional Investors Investing in the Chinese Bond Market” issued in November 2022*, overseas investors can conduct CNY FX derivatives for hedging purposes and manage the foreign exchange risk exposure arising from their investment in the Chinese bond market.

Apart from hedging via the banks, overseas investors under CIBM Direct have two other ways to do CNY FX hedging.

- Participate in the Interbank Foreign Exchange Market by becoming members of CFETS (hedge directly with other market participants, limited to overseas banking institutional investors);
- Participate in the Interbank Foreign Exchange Market through the prime-brokerage model (use prime-broker’s credit or prime-broker’s name to hedge with counterparties).

*SAFE’s circular link: <http://www.safe.gov.cn/safe/2022/1118/21778.html>

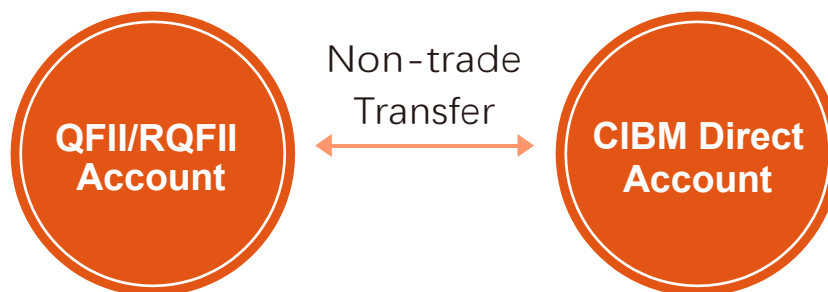
(2) Bond Connect

According to CFETS’s announcement* in September 2020, overseas investors can do CNY FX hedging with up to 3 Hong Kong FX Settlement Banks. Before conducting businesses, investors shall appoint one settlement bank as the Primary Settlement Bank and the other Hong Kong settlement banks as General Settlement Banks.

*CFETS Announcement link: <http://www.chinamoney.com.cn/english/rarfmrrudrgl/20200924/1785566.html>

9. Non-trade Transfer

Under **CIBM Direct**, overseas investors can apply for non-trade transfer between CIBM Direct & QFII/RQFII.



According to PBC, SAFE 's announcement¹ in October 2019, the same overseas investor is allowed to do non-trade bond transfer between its QFII/RQFII account and its CIBM Direct account, according to its investment management needs².

1. SAFE's circular link: <http://www.safe.gov.cn/en/2019/1030/1584.html>

2. CCDC's operational rules:

https://www.chinabond.com.cn/sczy/sczy_ywwj/ywwj_ywgz/ywgz_dhtg/202309/t20230908_853558708.html

For other non-trade transfer applications, please refer to the CCDC's Guidelines for Bond Registration, Custody and Settlement Business*.

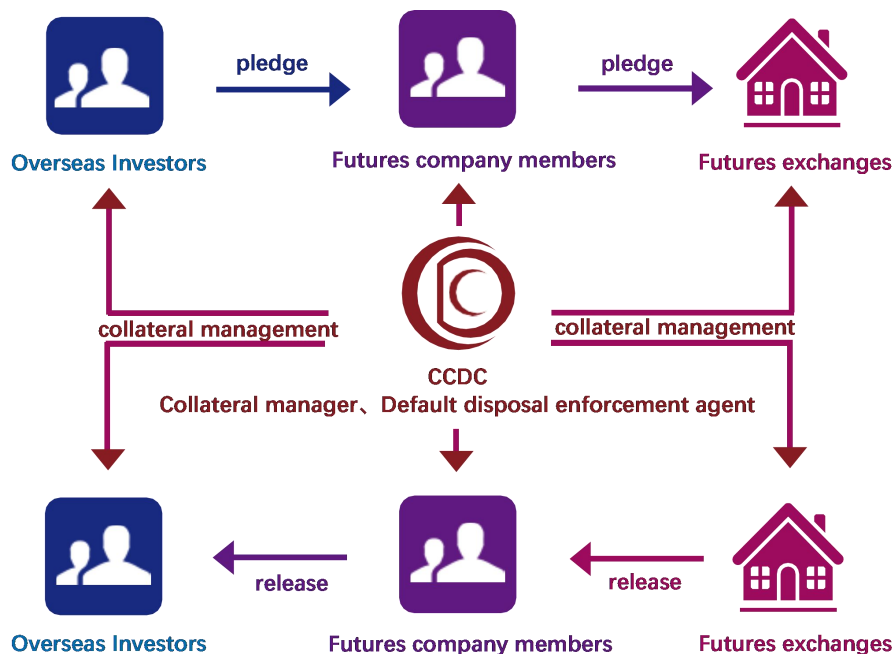
*CCDC's guideline link:

https://www.chinabond.com.cn/xwgg/ggtz/xwgg_gsgg/gsgg_zytz_ath/202307/t20230716_853045936.html

Overseas investors can check with CMU for more details on circumstances under which non-trade transfers can be conducted under **Bond Connect**.

10. Bonds as Futures Margins

Under **CIBM Direct**, overseas investors can leverage on CCDC 's collateral management services and use their **bonds as margins in futures trading**. CCDC established the mechanisms with six futures exchanges, namely, China Financial Futures Exchange, Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, Shanghai International Energy Exchange and Guangzhou Futures Exchange, to facilitate the use of bonds as futures margins.



Under **Bond Connect**, investors cannot access CCDC's collateral management services.

Summary

Currently, **CIBM Direct** and **Bond Connect** are the two main channels for overseas investors to access the China bond market. Each has its unique features and modus operandi and is complementary to the other. The availability of these different channels reflects the authorities' good will to provide more choices and flexibility to overseas investors.

More and more overseas investors believe that the China bond market is poised to play a pivotal role in the global bond market. For investors, shifting allocation to the China bond market is no longer a question of "why", but "how". CCDC and HKIFA will continue to work together with the authorities and market participants to identify key areas for enhancements so as to better cater for the needs of overseas investors. We welcome your invaluable inputs on how to further improve the investment facilitation in the market.

Notification: In case of any discrepancy in the Chinese and English versions of the booklet, the Chinese version shall prevail.

Disclaimer

This booklet is compiled by CCDC and HKIFA (hereinafter collectively referred to as the "editors") on a best effort basis. The copyright and all other relevant intellectual property rights belong to the editors and no entity or individual is allowed to extract, reproduce, modify, abridge, publish or otherwise improperly infringe on the editor's rights without the prior written consent of the editors (except for reasonable use permitted by relevant laws and regulations).

As enhancements are being introduced to the respective channels on an on-going basis, the information is subject to changes. This brochure only reflects the situation as of the date of its publication and does not exclude the possibility that the quoted data, regulations and other contents may need to be further improved in terms of comprehensiveness, accuracy, consistency with the views of the relevant authorities or other participants. Therefore, investors are still required to independently and comprehensively understand the relevant Chinese laws, regulations, supervisory provisions and business rules issued by CCDC before investing. If in doubt, please consult your professional firms and service providers for the latest updates of markets.

The information provided in this booklet is for general reference only and does not constitute or should not be construed as investment suggestions or other forms of advice. Investors should exercise their judgment independently in respect of any analysis, judgment and decision on investing in the China bond market and should bear all risks and liabilities associated with their decisions. The editors will not assume any responsibilities and/or liabilities for any losses or other consequences caused by the content in this booklet or any omissions.

Data is as at the end of June 2023.

China Central Depository & Clearing Co.,Ltd.

Address: No.10, T2, Financial Street, Xincheng District, Beijing 100033

Phone: +86 (0) 10 88170123

Fax: +86 (0) 10 88170971

E-mail: marketing_sh@chinabond.com.cn

Company website: www.ccdc.com.cn

Hong Kong Investment Funds Association

Address: Unit 701, 7/F, Hong Kong House 17-19 Wellington Street, Central Hong Kong

Phone: (852) 2537 9912

Fax: (852) 2877 8827

E-mail: hkifa@hkifa.org.hk

Company website: www.hkifa.org.hk