

Expanded Settlement Arrangement on Bond Connect Securities as Collateral for Offshore RMB Repo Business

(effective 25 August 2025)

July 2025

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Table of Content

- 1. Introduction of the Expanded Settlement Arrangement**
- 2. Guide on how the arrangement works**
 - Who can participate and reporting obligation
 - How to conduct repo transactions
 - How to conduct collateral management
 - How to conduct rehypothecation of collaterals
 - How to manage default scenario
- 3. Comparison with the CMU Triparty Repo Service**

Part 1

Introduction:

The Expanded Settlement Arrangement

Expanded Settlement Arrangement

Introduction

CMU members can utilise the “DvP” transaction type to execute repo transactions with Northbound Bond Connect securities as collateral

- ✓ Support the rehypothecation of bond collaterals during the repo period under the following scenario(s):
 - a) for re-use in offshore repo transactions;
 - b) as collateral for the HKMA’s RMB Liquidity Facility;
 - c) as margin collateral at OTC Clearing Hong Kong Limited (OTCC); and
 - d) for cash bond trading through Northbound Bond Connect
- ✓ Support cross-currency repo (including HKD, USD and EUR)

Expanded Settlement Arrangement

Key Features

- ✓ Support **bilateral repo transactions**
- ✓ Simplify **account structures**
- ✓ Support **various differential on cross-currency repo**
- ✓ Support **the rehypothecation of collateral**
- ✓ Leverage **existing SWIFT infrastructure enabling efficiency**
- ✓ Support **Open-ended Repo, Roll-Over Transactions for greater flexibility**

Part 2

Guide on

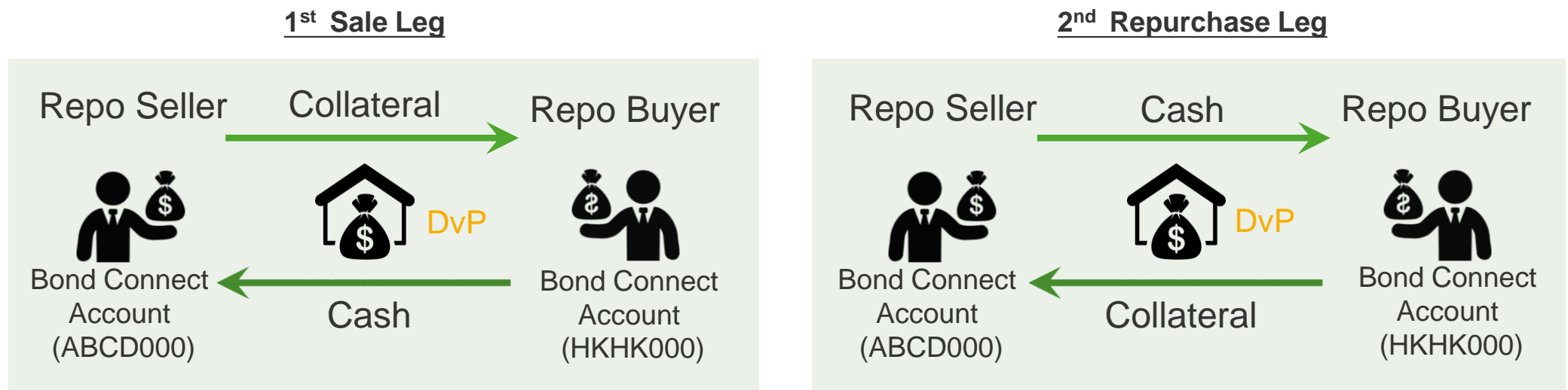
How the Arrangement Works

Who Can Participate & Reporting Obligation

✓ **All existing Northbound Bond Connect investors**

✓ **Market makers¹ mechanism**

- Repo transactions have to be conducted with designated market makers as a counterparty
- Market makers have reporting obligation to the HKMA on offshore repo transactions



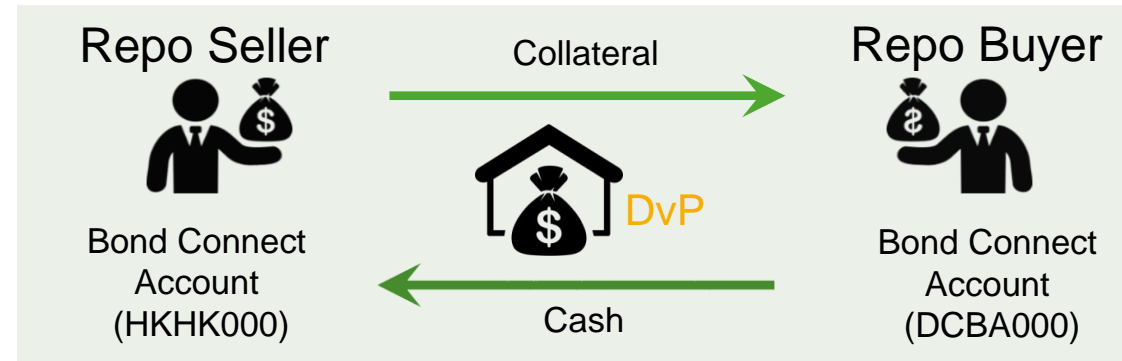
**Part 2:
The How**

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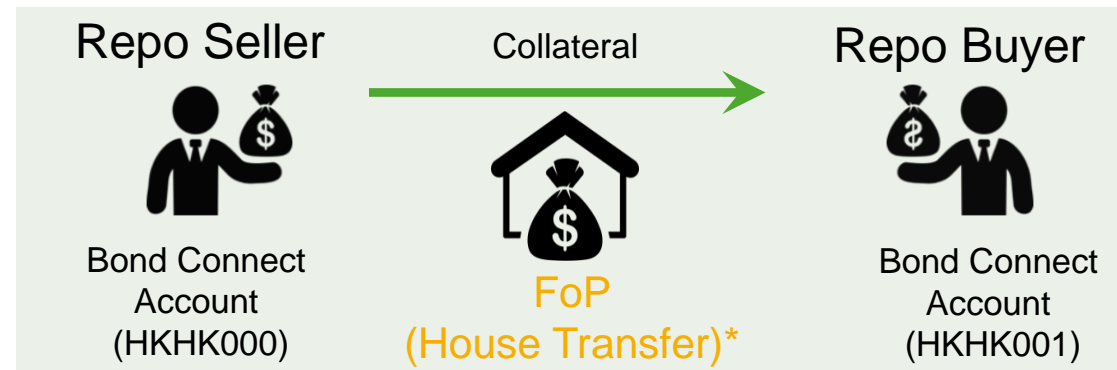
How to Conduct Repo Transactions

DvP Repo Trade: When Bond Connect investors choose

- **DIFFERENT** CMU members as their custodians



- **SAME** CMU member as their custodian



* Cash handles outside the CMU System

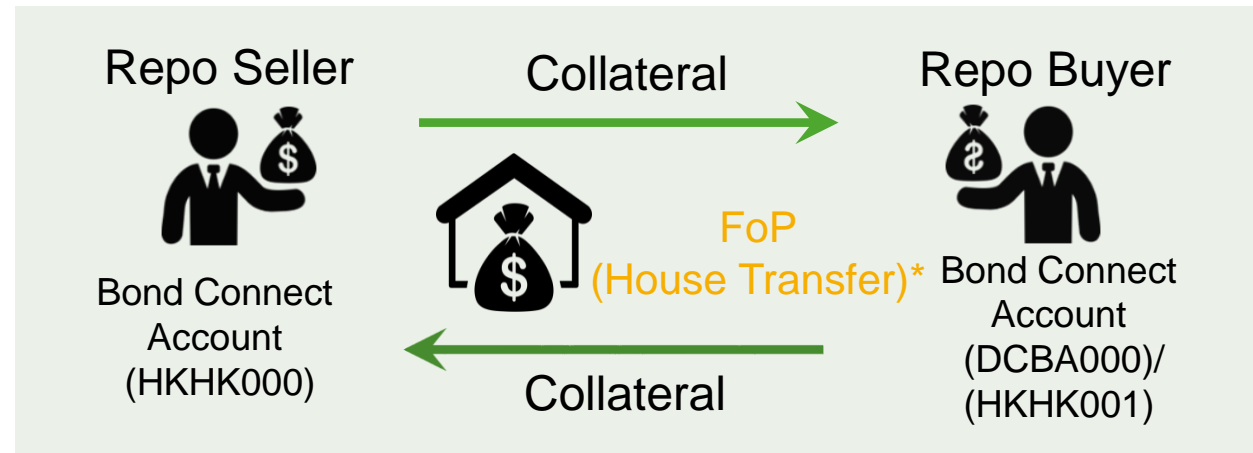
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How to Conduct Collateral Management Transactions

The collateral management services such as selection of collateral, mark to market, or other collateral management services for Repo Transactions are arranged by the repo buyer and the repo seller among themselves and can be done by move in/out of collateral by FoP transaction.

- ✓ Return
- ✓ Substitution
- ✓ Top Up



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* When Bond Connect investors appoint the same CMU member as their custodian

How to Conduct Rehypothecation of Bond Connect Securities as Collateral

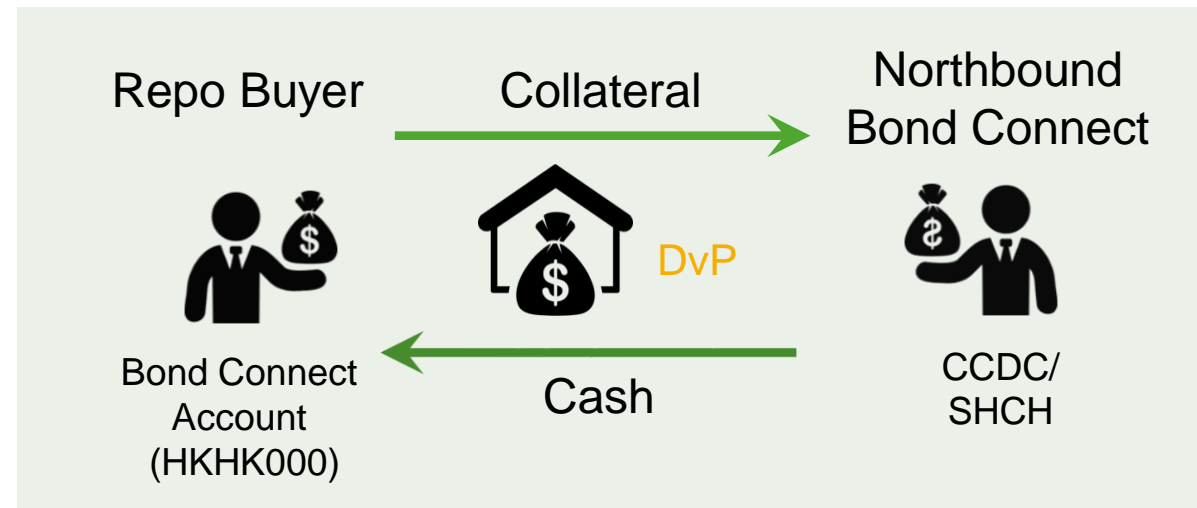
The rehypothecation of bond collateral during the life of a DvP repo will be supported for the following scenario(s):

1. Trading in CIBM via the Northbound Bond Connect Scheme;
2. Posting as collateral for the HKMA's RMB Liquidity Facility;
3. Posting as collateral for margin collateral for all derivative transactions cleared by the OTC Clear (OTCC); and
4. Posting as collateral for offshore repo business

**Part 2:
The How**

How to Conduct Rehypothecation of Collateral

1. Trading in CIBM via the Northbound Bond Connect Scheme

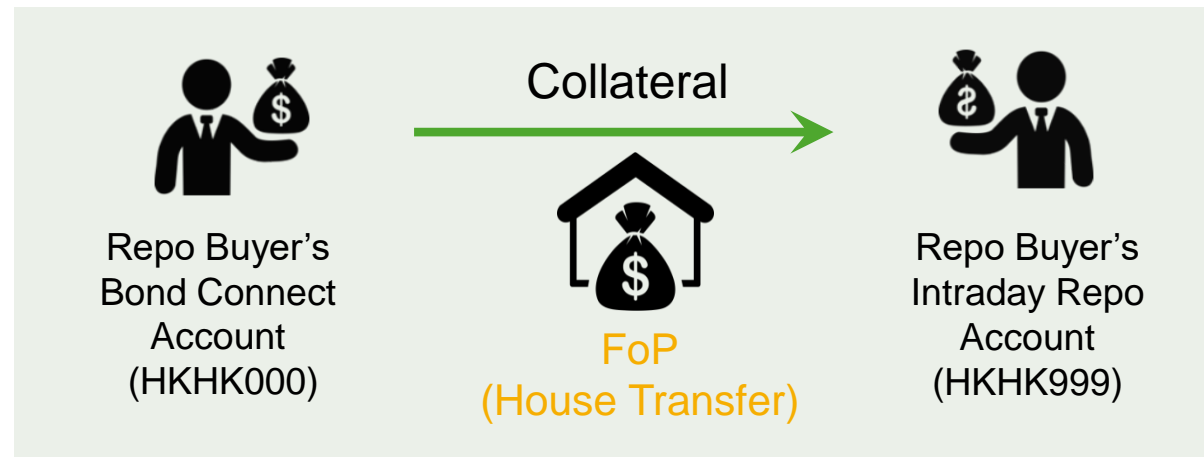


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How to Conduct Rehypothecation of Collateral

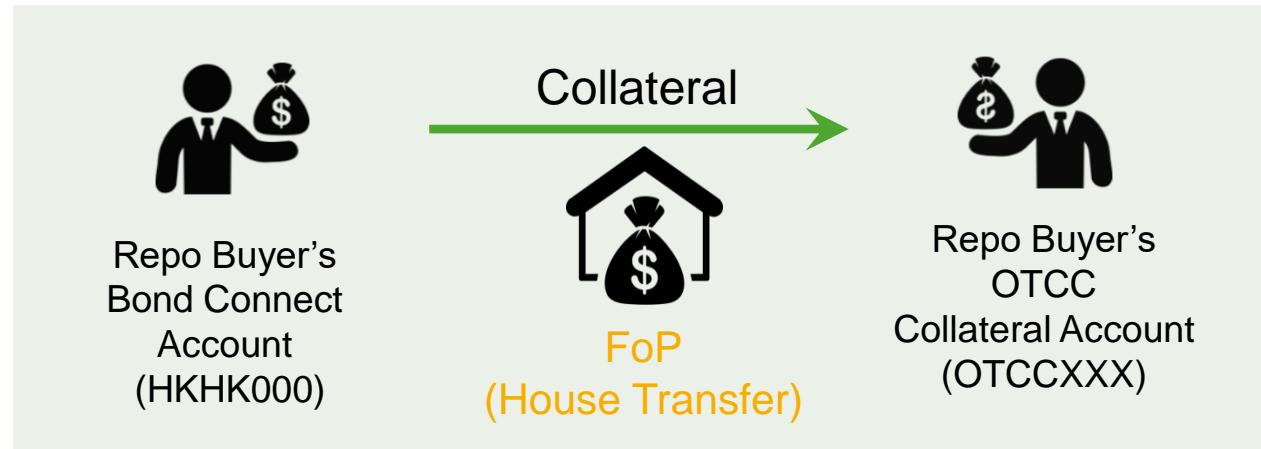
2. Posting as Collateral for the HKMA's RMB Liquidity Facility



Part 2:
The How

How to Conduct Rehypothecation of Collateral

3. Posting as Collateral for Margin Collateral for All Derivative Transactions Cleared by the OTC Clear

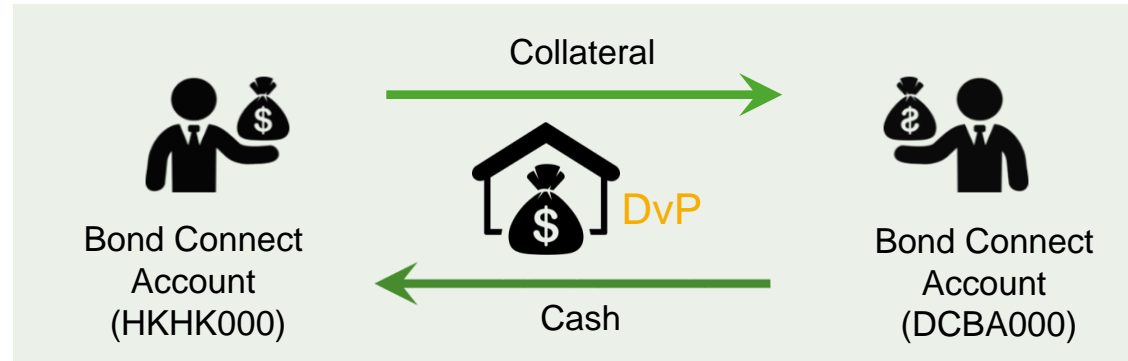


Part 2:
The How

How to Conduct Rehypothecation of Collateral

4. Posting as Collateral for Offshore Bond Repo Business

a. Expanded Settlement Arrangement



b. CMU Triparty Repo Service



Part 2:
The How

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When It Comes to Default Arrangement

The repo buyer and the repo seller can dispute among themselves via DvP or FoP by agreement

- Members can early repurchase, and terminate the outstanding repo transactions by sending DvP/FoP instructions
- Close out netting involving DvP/FoP between the repo seller and the repo buyer

Part 2:
The How

Part 3

Comparison with the CMU Triparty Repo Service

What Are The Differences

	<u>The Expanded DvP Repo Settlement</u>	<u>CMU Triparty Repo Service (Bank Repo)</u>
Registration with CMU	Not required	Submit the following documents to CMU: <ul style="list-style-type: none"> • Triparty Repo Service Agreement; • Appendix N.1 Form; • Appendix N.2 Form; and • Appendix T.12 Form
Account structure	No need to set up additional sales and purchase accounts	Need to set up a pair of new repo sale and repo purchase account for each Bond Connect investor
Transaction input type and channel	Transaction input type “CMU Securities Transfer” or “House Transfer” <ul style="list-style-type: none"> • via MT54* • via CMT 	Transaction input type “Bank Repo” <ul style="list-style-type: none"> • via CMT
Settlement mode	<ul style="list-style-type: none"> • Against payment between 2 CMU members’ accounts • FoP (i.e. House Transfer) within the CMU member’s account 	Against payment type

Part 3:

The Comparison

What Are The Differences

	<u>The Expanded DvP Repo Settlement</u>	<u>CMU Triparty Repo Service (Bank Repo)</u>
Transfer restriction	<ul style="list-style-type: none"> Existing Bond Connect account will be used for Repo Transactions One of the parties must be a market maker for Repo Transactions 	<ul style="list-style-type: none"> House transfer of Bond Connect securities is only allowed between matched CMU sub-accounts and associated Triparty Repo accounts One of the parties must be a market maker for Repo Transactions
Eligible securities	Any Bond Connect securities under the Northbound Bond Connect scheme	<p><u>For manual mode</u> Any Bond Connect securities under the Northbound Bond Connect scheme</p> <p><u>For auto mode</u> Onshore bonds issued by CMOF and the policy banks of the People's Republic of China</p>

Part 3:

The Comparison

What Are The Differences

	<u>The Expanded DvP Repo Settlement</u>	<u>CMU Triparty Repo Service (Bank Repo)</u>
Collateral management	Not administered by CMU. Both the repo buyer and the repo seller are required to perform mark to market of collaterals among themselves and move in/out of collaterals by FoP	Administered by CMU under auto mode, such as daily mark to market, auto-substitution, etc
Re-use of collaterals	Supported, can be re-used for the following: <ol style="list-style-type: none"> 1. Trading in CIBM via the Northbound Bond Connect scheme; 2. Posting as collateral for the HKMA's RMB Liquidity Facility; 3. Posting as collateral for margin collateral for all derivative transactions cleared by the OTC clear; 4. Posting as collateral for offshore bond repo business 	Not supported

Part 3:

The Comparison

What Are The Differences

	The Expanded DvP Repo Settlement	CMU Triparty Repo Service (Bank Repo)
Early termination of repo transaction	Supported by <ul style="list-style-type: none"> • Cancelling the far-end DVP leg • Creating a new DVP instruction with the early repurchase date • Matching instructions from both parties are required if settlement is occurred between two different CMU members 	Supported
Handling of CA and income payment in respect of collaterals	Income will be paid to the repo buyer's account. CA events will be sent to the repo buyer	Income will be paid to the repo seller's account
Default arrangement	Not supported	Supported

Part 3:

The Comparison

What Are The Differences

	<u>The Expanded DvP Repo Settlement</u>	<u>CMU Triparty Repo Service (Bank Repo)</u>
Cut-off time	<ul style="list-style-type: none"> • DvP and FoP instruction: 18:30 • House Transfer instruction: 05:15 of the next calendar day 	<ul style="list-style-type: none"> • Triparty Repo instruction/cancellation: 18:00 • Manual repurchase instruction: 14:30 • Collateral management instruction: 18:30
Recycling settlement	Supported	Not Supported

Part 3:

The Comparison

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