

香港特別行政區政府
財經事務及庫務局
財經事務科
香港添馬添美道二號
政府總部二十四樓



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FINANCIAL SERVICES BRANCH
FINANCIAL SERVICES AND
THE TREASURY BUREAU
GOVERNMENT OF THE HONG KONG
SPECIAL ADMINISTRATIVE REGION

24TH FLOOR
CENTRAL GOVERNMENT OFFICES
2 TIM MEI AVENUE
TAMAR
HONG KONG

電話 TEL.: 2810 3075
圖文傳真 FAX.: 2527 0790
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By Email (smwlo@legco.gov.hk)

16 June 2022

Clerk to Legislative Council
Legislative Council Secretariat
1 Legislative Council Road
Central, Hong Kong
(Attn : Miss Sharon LO)

Dear Miss Lo,

Panel on Financial Affairs
Meeting on 3 May 2022

In response to Dr Hon Stephen Wong's letter dated 3 May 2022 (LC Paper No.CB(1)259/2022(01)) in relation to Agenda Item IV "Briefing on the work of the Hong Kong Monetary Authority" and in particular the Central Moneymarkets Unit, please find our reply, prepared in consultation with the Hong Kong Monetary Authority, at **Annex**.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Justin TO'.

(Justin TO)
for Secretary for Financial Services and the Treasury

c.c. Hong Kong Monetary Authority

Question 1: Connection with Other Depository Platforms

In recent years, we have been continuously enhancing the Central Moneymarkets Unit (“CMU”) to provide suitable debt securities depository services for local, regional and international market participants. The “Bond Connect” and gradual opening of the Mainland market also present an opportune time for the CMU to develop into a major central securities depository in Asia. With the launch of the “Bond Connect”, the CMU has become an important platform for overseas investors entering Mainland’s bond market and for Mainland investors investing in international bond market. We will make reference to the operational model of the leading international central securities depositories abroad and actively explore the possibility of the connection between the CMU and different depositories in and outside the region in light of market development and demand, with a view to supporting and providing convenience to market participants in and outside the region on one hand and ensuring the efficiency and security of the system on the other.

Question 2: Services Provided by CMU

The CMU now connects with four Real Time Gross Settlement systems, providing delivery versus payment services for debt instruments in Hong Kong dollar, Renminbi, US dollar and Euro. The CMU also provides liquidity to members in these four currencies through reverse repurchase operations, fulfilling members’ short-term funding needs. For the two leading international central securities depositories in Europe, they hold banking licences for historical reasons in addition to meeting their own development needs and satisfying their compliance requirements. The CMU has also been developing and being enhanced to keep pace with market changes with a view to providing suitable services. As to providing members with funding accounts and related services, we are currently studying the provision of multi-currency accounts and will consult members on the services, with a view to meeting market demands through continuously enhancing CMU’s scope and quality of services.

Question 3: Adoption of Financial Technology

The CMU has all along been making full use of the latest and secure financial technologies to provide market participants with secure, operationally efficient

and low-cost services. For example, we have adopted robotic process automation in system operation. In addition, we will also make available to members early next year the open application programming interface and are currently studying the use of distributed ledger technology based on blockchain in the processes of bond issuance, clearing, settlement and redemption.

Question 4: Matters in relation to Credit Rating

As the CMU is operated by the Hong Kong Monetary Authority (“HKMA”) and is a financial infrastructure seeking to provide issuance, clearing and settlement services for Exchange Fund Bills and Notes, it is not necessary to obtain a separate credit rating for the CMU. Sharing the good reputation of the HKMA, the CMU has all along gained trust and high level of confidence from market participants. Currently, over 3,500 institutional investors from 36 countries and regions across the globe have invested in the Mainland bond market through the CMU under the “Bond Connect”. The holding of China Interbank Bond Market bonds through the CMU under the “Bond Connect” as at end-2017 was RMB 88.8 billion. It increased by 11 times to over RMB 1.04 trillion as at end-2021. We will continue to leverage on the opportunities presented by the continuous opening of the Mainland capital market and step up the promotion of CMU services to bond investors and issuers, with a view to further enhancing the understanding of CMU among Mainland and overseas market participants.

Financial Services and the Treasury Bureau
Hong Kong Monetary Authority
June 2022