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[online version](https://www.charltonslaw.com/swap-connect-development-jointly-announced-by-peoples-bank-of-china-hong-kong-securities-and-futures-commission-and-hong-kong-monetary-authority/)

**Swap Connect Development Jointly Announced by People’s Bank of China, Hong Kong Securities and Futures Commission, and Hong Kong Monetary Authority**

On 4 July 2022, the People’s Bank of China (the **PBOC**), the Hong Kong Securities and Futures Commission (**SFC**), and the Hong Kong Monetary Authority (**HKMA**) jointly announced that the China Foreign Exchange Trade System (also known as the National Interbank Funding Centre) (**CFETS**), and Shanghai Clearing House (**SHCH**), together with OTC Clearing Hong Kong Limited (**OTC Clear**)(collectively **Infrastructure Institutions**), will collaborate to develop a mutual access mechanism between the Hong Kong and Mainland interest rate swap markets (known as **Swap Connect**) in order to promote the development of financial derivatives markets in both Mainland China and in Hong Kong. The Joint Announcement is available [*here*](https://www.sfc.hk/en/News-and-announcements/Policy-statements-and-announcements/Joint-Announcement-of-the-PBoC-the-SFC-and-the-HKMA).

**China-Hong Kong Swap Connect**

Swap Connect will be an arrangement where investors are able to participate in the financial derivatives markets in the Mainland and Hong Kong through a connection between Infrastructure Institutions in both places. The Hong Kong Exchanges and Clearing Limited (**HKEx**), through its clearing subsidiary OTC Clear, is working in partnership with CFETS and SHCH to build the infrastructure, which will provide trading and clearing services for Hong Kong and international investors to access Mainland China’s financial derivatives market, and for investors in Mainland China to access Hong Kong’s financial derivatives market. Swap Connect will allow Hong Kong and international investors to participate in Mainland China’s interbank interest rate swap market, without changing their existing trading and settlement practices.

Under Swap Connect, CFETS will provide trading services for investors, allowing Hong Kong and international investors to access Mainland China’s interbank derivatives market through overseas third-party trading platforms recognised by the PBOC without changing their trading practices. CFETS will transmit real-time transactions information to OTC Clear and SHCH to support the efficient clearing of these transactions. OTC Clear and SHCH is tasked with building a clearing link, with OTC Clear providing central clearing services for Hong Kong and international investors, while SHCH will provide central clearing services for investors in Mainland China. The two clearing houses will handle daily margin management and settlement payments with each other, and will establish a central counterparty margin fund to manage default risk.

It is planned that in the initial stage, China-Hong Kong Northbound trading (i.e. investors from Hong Kong and other overseas investors participating in the Mainland financial derivatives market) will commence first while Southbound trading (i.e. investors from Mainland China participating in Hong Kong’s financial derivatives market) will only be explored further in due course.

Swap Connect will be subject to the relevant laws and regulations of both markets. The planned Northbound trading will be following the existing policy framework for the opening-up of the Mainland interbank financial derivatives market and international practices in order to facilitate overseas investors to trade in the Mainland interbank financial derivatives market and hedge their risks. Interest rate swaps will be eligible initially with other products to be included in due course depending on market conditions.

According to the PBOC, SFC, HKMA Joint Announcement, the regulators of the financial derivatives markets in Hong Kong and the Mainland will enter into a memorandum of understanding on supervisory cooperation to establish regulatory collaboration arrangements and liaison mechanisms and to establish an effective mechanism to handle any misconduct in a timely manner with the aim of maintaining the stability, fairness, and orderly trading of financial markets.

Swap Connect is expected to be launched in early January 2023 after the completion of all the necessary preparatory work, including finalising the relevant rules and system development to address the practical needs of market participants as well as obtaining relevant regulatory approvals.

**Other China-Hong Kong Connect Schemes**

Other Connect schemes were previously launched between Hong Kong and China. The Stock Connect launched in 2014 enabled investors in each market to trade shares on the other market using their local brokers and clearing houses. The Bond Connect launched in 2017 allowing investors to trade in each other’s bond market. The latest addition to the Connect scheme was the ETF Connect, newly launched on 4 July 2022, which allows certain eligible exchange traded funds to be traded on each other’s markets.

The PBOC, China’s central bank, also said on 4 July 2022 that it has upgraded a currency swap facility with Hong Kong to a permanent agreement, which is its first standing swap agreement. Its size has also been expanded from RMB 500 billion (approximately HKD 590 billion) to RMB 800 billion (approximately HKD 940 billion). The PBOC said that that the upgrade could provide long-term liquidity support to the Hong Kong market, help stabilise market expectations, and promote the development of Hong Kong’s offshore RMB market.

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