What is CIBM?
The China Interbank Bond Market scheme (CIBM) is a major milestone on China’s ongoing journey to open up its financial markets to the world. In short, it gives foreign financial institutions access to a wide range of fixed income instruments in the world’s third-largest bond market1 – such as government bonds, commercial paper, and mid-term notes.

International investors have traditionally faced restricted access to China’s interbank bond market, limited to certain foreign financial institutions such as investors under the Qualified Foreign Institutional Investor scheme, known as QFII, and its renminbi equivalent RQFII. CIBM coexists alongside the QFII and RQFII, but differs in several important aspects.

■ Registration – Unlike QFII and RQFII, which provide access to China’s markets after an application process, CIBM offers a much quicker registration system. The registration timeframe for non-sovereign financial entities is from a few days or up to 20 working days on CIBM, which is much shorter than the five to seven months that they would typically have to wait for license approval, followed by quota registration and approval, on QFII and RQFII.

■ No quota limit – In contrast to QFII and RQFII, CIBM investors may file for an investment limit based on their needs, which means that there is no upper limit that an individual foreign institution can invest in the CIBM market.

■ Capital movement – Participants in the CIBM scheme enjoy few limits when repatriating invested funds from China. Although QFII’s repatriation rules were relaxed earlier in 2016, investors are still required to adhere to a lock-up period as well as other restrictions on the cross-border movement of funds.

■ Hedging instruments – On top of cash bonds, foreign investors can participate in bond lending, bond forwarding, forward rate agreements, interest rate swaps for hedging purposes.

How has CIBM developed?
CIBM started as a pilot programme in 2010 that was limited to foreign central banks, RMB clearing houses, and overseas institutions that were engaged in RMB cross-border trade settlement. The scheme was subsequently revised in July 2015 and February 2016 in moves that broadened the range of eligible investors and investable products.

All kinds of foreign financial institutions and institutional investors can now buy onshore fixed income assets via the scheme. As of August 4, 2016, 23 products of Overseas Institutional Investors (OII) have completed the new CIBM registration process with The People’s Bank of China (PBoC).

A number of recent events suggest that more investors are likely to enter the market. At the beginning of October, the International Monetary Fund (IMF) added the renminbi to its Special Depository Rights (SDR) basket of currencies, a move that will increase demand for renminbi-denominated assets as central banks adjust their asset allocation to match the new weighting.

CIBM fits into a broad reform programme for Chinese markets. The upcoming Shenzhen-Hong Kong Stock Connect is another major scheme that will open China’s second largest stock market to foreign capital. And in March, Premier Li Keqiang said during his annual government work report that the government would work to further liberalise interest rates and allow the renminbi exchange rate to float more freely2.

The pre-existing routes into China’s onshore markets, QFII and RQFII, are also undergoing improvements. In August, the PBoC and the State Administration of Foreign Exchange (SAFE) shared formal rules relating to RQFII, relaxing the requirements regarding quota application and control. A centralised multi-tier capital market account system was also introduced. Known as Yi Ma Tong, the system operates on stock and futures exchanges to provide linkages across markets to protect the rights of investors.

Notes:
1 Based on data from central depositories, including the China Central Depository & Clearing Co (2016).
2 http://english.gov.cn/premier/news/2016/03/17/content_281475309417987.htm

issued by HSBC Bank plc
What is CIBM’s post-trade procedure?

Steps

1. HSBC Global Markets (GM) provides the trading ticket from China Foreign Exchange Trade System (CFETS) to client and HSBC Securities Service (HSS) China as settlement agent for settlement.

2. Client issues settlement instruction (if HSBC is not direct custodian, to Global Custodian (GC), who will then send settlement instruction) via MT54x to HSS China before prescribed deadline on settlement date. HSS China matches the instructions with the trading ticket.

3. Once trade is matched and adequacy of cash (buy trade)/securities (sell trade) is satisfied, HSS China and counterparty (HSBC GM back office or third party back office) check the trade details and affirm in CCDC/SCH system. For the buy trade, HSS China will also pay the purchase cost to clients designated cash account opened with CCDC/SCH.

4. The settlement for both bond and cash will complete after trade has been affirmed on CCDC/SCH platform by both HSS China and counterparty, as long as there is sufficient funding in buyer’s account and there is sufficient holding in seller’s account.

5. HSS China sends settlement confirmation to (if HSBC is not direct custodian, GC via MT54x on real-time basis upon settlement, who will then advise) the client.

Note: This process may be updated occasionally according to regulations and HSBC internal control requirement.

What does HSBC bring to CIBM?

HSBC is the leading provider of services for foreign institutions investing in China’s onshore bond market, offering an integrated solution that covers trading, settlement and custody. We have deep experience in the Chinese securities market going all the way back to 1992, when we became the first foreign bank to offer onshore custody services. Since then, we have continued to stay ahead of the competition with a powerful list of firsts. We are:

- the first foreign bank to obtain special approval from the PBoC to provide custodian services for a sovereign wealth fund’s investment in CIBM in 2005.
- the first foreign bank to support participating banks to invest in CIBM under the original PBoC Pilot Programme in 2010.
- the first foreign bank to introduce foreign insurance companies into CIBM in 2013.
- the first bank to facilitate overseas financial institutions to register with the PBoC as the appointed settlement agent under the CIBM direct scheme in 2016.

With a significant share of the number of CIBM clients under the PBoC direct scheme, HSBC has quickly cemented itself as the preferred choice for foreign investors that want to explore opportunities in China’s onshore bond market. We have one of the largest and most experienced teams servicing cross-border investments, and as a major market participant, we are continually lobbying for the interests of our customers and promoting the broader development of the market.