

## China Bond Connect: *Irish UCITS and AIFs*

- The Central Bank of Ireland (CBI) completed its review of China Bond Connect and from 21 March 2019 Irish UCITS and AIFs may use Bond Connect. Bond Connect is designed to provide international investors with access to the China bond market.
- The UCITS or AIF's depositary must be satisfied that it can meet its safekeeping obligations under UCITS or AIFMD. The CBI took a similar approach for China Stock Connect.
- The CBI's conclusion is a welcome development for Irish UCITS and AIFs wishing to access China's bond market

### Background

The China Bond Connect initiative launched in July 2017. Before Bond Connect, international investors wishing to access China's bond market could use the China Interbank Bond Market (CIBM) Direct, QFII and RQFII routes. Bond Connect is an alternative, more straightforward and efficient method to access the China Bond market. There is no need to obtain quotas under QFII and RQFII or implement the associated infrastructure and process.

### CBI review and Depositary requirements

The CBI took time to review the Bond Connect infrastructure. One objective of the CBI review was to ensure the custody and settlement arrangements for Bond Connect satisfy the depositary requirements under UCITS and AIFMD. The CBI reviewed the China Stock Connect scheme in 2015 and submissions in relation to custody and settlement arrangements for Stock Connect were relevant and useful in the Bond Connect review. Similar to Stock Connect, the CBI will require Irish depositaries to be satisfied that they will be in a position to comply with their safekeeping obligations in respect of Irish collective investment schemes accessing Bond Connect.

On 21 March 2019, the CBI sent a letter to Irish Funds concluding that from 21 March 2019 Bond Connect may be applied by Irish UCITS and AIFs.

### CIBM Bonds in Indices

The conclusion of the CBI review is timely given the proposed inclusion of bonds traded on CIBM in a number of internationally recognised indices. Bloomberg Barclay Global Aggregate Index may include CIBM bonds potentially from April 2019. Other examples are FTSE World Government Bond Index and JP Morgan Government Bond-Emerging Market Index. Subject to opening the relevant accounts, Irish regulated funds tracking those indices will be able to access the China bond market via Bond Connect.

### UCITS markets list

Irish UCITS wishing to access Bond Connect should review the markets list in the UCITS' prospectus to establish if the list needs to be updated to include CIBM.

### UCITS and AIFMD Q&A

The CBI UCITS Q&A and AIFMD Q&A were updated on 29 March 2019 to include a new Q&A in relation to Irish UCITS or AIFs which acquire Chinese bonds through the Bond Connect infrastructure. The Q&A clarifies that if an Irish authorised UCITS or AIF proposes to acquire Chinese bonds through Bond Connect, the depositary of the UCITS or AIF, or an entity within its custodial network, must ensure it retains control over the bonds at all times.

For more information on this topic please contact a member of the Asset Management & Investment Funds team.

Our team



**Brian McDermott**  
*Partner and Head of Asset  
Management & Investment Funds*  
+353 1 649 2307  
bmcdermott@algoodbody.com



**Michael Barr**  
*Partner*  
+353 1 649 2327  
mbarr@algoodbody.com



**Stephen Carson**  
*Partner*  
+44 20 7382 0820  
scarson@algoodbody.com



**Mary McKenna**  
*Partner*  
+353 1 649 2344  
mmckenna@algoodbody.com



**Kerill O'Shaughnessy**  
*Partner*  
+353 1 649 2422  
koshughnessy@algoodbody.com



**Laura Butler**  
*Partner*  
+353 1 649 2209  
lbutler@algoodbody.com



**Nollaig Greene**  
*Associate & Knowledge Lawyer*  
+353 1 649 2359  
ngreene@algoodbody.com



**Ann Shiels**  
*Associate & Knowledge Lawyer*  
+353 1 649 2396  
ashiels@algoodbody.com

*Disclaimer: A&L Goodbody 2019. The contents of this document are limited to general information and not detailed analysis of law or legal advice and are not intended to address specific legal queries arising in any particular set of circumstances.*