III

Characteristics of the Hong Kong Bond Market

The Securities and Futures Commission (SFC) and, in particular, the HKMA continue to drive the development of the Hong Kong bond market in line with global and regional trends, as well as changes in participants' expectations and behavior. Since the *ASEAN+3 Bond Market Guide* was first introduced in 2012, there have been and continue to be substantial changes in some market characteristics that are not limited to the regulatory environment.

As such, some of the more recent additions or changes to the characteristics of the Hong Kong bond market are described in this chapter in the context of the existing structure of the *ASEAN+3 Bond Market Guide 2016: Hong Kong, China*, which was published in 2016.

B. Types of Bonds and Notes

All Government Bonds and most corporate bonds are eligible for clearing in the CMU and maintained in book-entry form.

EFBNs and Government Bonds are in scripless form, while other paper is either bearer or registered and held in physical form, represented by either definitive or global notes.

The most common currencies in which bonds are denominated are the Hong Kong dollar, offshore Chinese renminbi, euro, and US dollar.

1. Bonds and Notes Issued by Public Entities

In Hong Kong, China, bonds and notes issued by public entities include those issued by the Government of the HKSAR of the PRC, the HKMA as the de facto central bank and representative of the government, statutory boards, and other government-related corporations.

a. Government Bonds

The Government Bond Programme, consisting of the Institutional Bond Issuance Programme and the Retail Bond Issuance Programme, was established in 2009 to promote the sustainable development of the local bond market.

Government Bonds are issued under the Loans Ordinance (Chapter 61 of the Laws of Hong Kong) and the principal amount of the bonds and all interest and charges thereon will be payable out of the Bond Fund set up under the Public Finance Ordinance (Chapter 2 of the Laws of Hong Kong).

iii. Government Green Bond Programme (From 2018) [NEW]

The Chief Executive of the Government of the HKSAR of the PRC announced in the 2017 Policy Address that the government would take the lead in arranging the issuance of a green bond to demonstrate the government's support for sustainable development and determination to combat climate change, and to promote the development of green finance. The Financial Secretary further announced in the 2018–19 Budget that a Government Green Bond Programme would be launched. The Government Green Bond Programme represents a separate initiative, independent of the Government Bond Programme, which has been in place for some time.

On 15 November 2018, the Legislative Council passed a resolution under the Loans Ordinance (Cap. 61), authorizing the government to borrow up to a maximum principal amount outstanding of HKD100 billion (or equivalent in other currencies) at any one time under the Government Green Bond Programme. The proceeds of the issued green bonds will provide funding for green public works projects of the government.

The HKSAR of the PRC's Green Bond Framework, which is aligned with the Green Bond Principles, sets out how the government intends to issue green bonds to fund projects that will improve the environment and facilitate the transition to a low-carbon economy.[5]

The HKMA assists in implementing green bond issuance under the Government Green Bond Programme. The first green bond under the program was issued in May 2019, with an issuance size of USD1 billion and a 5-year tenor, setting an important new benchmark for potential issuers in Hong Kong, China and the region. The green bond was nearly four times oversubscribed and placed with a wide range of global institutional investors. The bond also won a number of green bond awards. Riding on the success of the inaugural issue and heeding market demand for continued issuances, the Financial Secretary announced in the 2020–21 Budget the continuation of green bond issuances totaling HKD66 billion (USD8.5 billion) over the next 5 years in line with market conditions.

More detailed information on the Government Green Bond Programme and the underlying Green Bond Framework may be accessed via the website of the Government Green Bond Programme.[6]

N. Definition of Professional Investors

The professional investor concept in Hong Kong, China, its definition, and eligibility criteria and related rules are explained in Chapter III.N of the *ASEAN+3 Bond Market Guide 2016: Hong Kong, China*.

The following changes occurred to the Professional Investor Rules in 2018 and are hereby added to this update.

[5] The Green Bond Principles are compiled and maintained by the International Capital Markets Association on behalf of international bond market participants. Information on the Green Bond Principles is available from the ICMA website at https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/.
[6] See https://www.hkgb.gov.hk/en/greenbond/greenbondintroduction.html.

2. Changes to the Professional Investor Rules (2018) [NEW]

Effective 13 July 2018, the SFC amended the Securities and Futures (Professional Investor) Rules (Cap. 571D) to include additional entities to be eligible as professional investors, following a public consultation on the proposed amendments; the consultation conclusions had been published on 18 May 2018.

Key among the amendments was the ability for parties to be able to obtain and submit alternative forms of evidence of qualification as a professional investor. Such evidence includes certificates issued by custodians, auditors, or certified public accountants, or the use of public filings made under legal or regulatory requirements to demonstrate professional investor qualifications.

The new eligibility criteria included companies that have investment holding as their principal business purpose and are owned by one or more professional investors, as well as companies that wholly own a company that is qualified as a professional investor.

In addition, portfolios—defined as comprising securities, certificates of deposit issued by banks, or money held by custodians for a person—in joint accounts with persons other than the spouse or any child of the individual, and in investment corporations wholly owned by an individual, were admitted to count against the individual professional investor eligibility criterion of an HKD8 million portfolio.[7]

The revision to the Professional Investor Rules made permanent some previous modifications granted by the SFC under Section 134 of the Securities and Futures Ordinance (Cap. 571), which allows the SFC to grant a modification or waiver of requirements in relation to certain persons, including intermediaries, in the capital market.

[7] The official announcement by the SFC, together with links to the public consultation and its conclusions, is available from the SFC website at https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=18PR54.