



# Recent Developments and Future Direction

## A. Recent Developments

Recent major developments are considered those that occurred in the Hong Kong bond market since publication of the *ASEAN+3 Bond Market Guide 2016: Hong Kong, China* in November 2016.

### 1. Initiatives to Develop Hong Kong's Green Bond Market (2018) [NEW]

As a market facilitator, the Government of the HKSAR of the PRC has taken several concrete steps to encourage green bond uptake and nurture growth of the market.

Apart from the launch of the Government Green Bond Programme (see also Chapter III.B in this update) to both promote bond market development and encourage green bond issuers to make use of Hong Kong, China's competitive capital markets and sophisticated financial and professional services, the government also launched a Green Bond Grant Scheme in June 2018 to subsidize the cost of obtaining certification under the Hong Kong Quality Assurance Agency's Green Finance Certification Scheme.

To ensure access to reputable market information, the HKMA worked in collaboration with the Climate Bonds Initiative to launch the *Hong Kong Green Bond Market Briefing 2019* in February 2019, with a second edition being published in May 2020. The latest report indicated that green bonds arranged and issued in Hong Kong, China totaled USD10 billion in 2019, with cumulative green bond issuance amounting to USD26 billion at the end of 2019. There has also been increased diversification of issuer types and project categories funded by green bonds. For more information on the latest edition of the *Hong Kong Green Bond Market Briefing* please refer to the website of the Climate Bonds Initiative.<sup>14</sup>

### 2. Pilot Bond Grant Scheme (2018) [NEW]

The Pilot Bond Grant Scheme (PBGS) was announced as a new measure by the Financial Secretary during the delivery of the 2018–19 Budget. The PBGS became effective on 10 May 2018 and is valid for 3 years from the commencement date. The scheme supports the first-time issuance of bonds in the Hong Kong bond market and is aimed at attracting additional domestic, PRC-based, and international enterprises to issue debt securities in the Hong Kong bond market. The HKMA announced the scheme's details on 10 May 2018.

<sup>14</sup> See <https://www.climatebonds.net/resources/reports/hong-kong-green-bond-market-briefing-2019>.

### a. Eligibility Criteria

A bond issue is eligible if issued in Hong Kong, China, defined as when a substantial amount of the issuance arrangements takes place in Hong Kong, China. In this context, the HKMA will look at the lead arrangers' debt capital market operations and plans in Hong Kong, China to determine whether the above criterion is fulfilled.

The bond will need to be issued to more than 10 investors, or it may be issued to less than 10 investors, if these investors are not associates of the issuer.<sup>15</sup>

The bond will have to be deposited in (the formal term is "lodged") and cleared by CMU or be listed on SEHK. The issuance size will have to amount to at least HKD1.5 billion or its equivalent in a foreign currency.

### b. Scheme Benefits

The Government of the HKSAR of the PRC supports first-time issues with a grant of up to 50% of the eligible issuance expenses, with a cap of HKD2.5 million for issues (or issuer or guarantor) with a credit rating from a credit rating agency recognized by the HKMA, or a cap of HKD1.25 million for issues that do not have a credit rating and where neither the issuer nor the issue's guarantor have a credit rating.<sup>16</sup>

Eligible issuance expenses include the following fee categories:

1. fees to Hong Kong, China-based arrangers;
2. fees to Hong Kong, China-based legal advisors;
3. fees to Hong Kong, China-based auditors and accountants;
4. fees to Hong Kong, China-based credit rating agencies;
5. fees to Hong Kong, China-based external green reviewers (in the case of green bonds);
6. SEHK listing fees; and
7. CMU lodging and clearing fees.

### c. Application Process

Issuers or lead arrangers may apply for a grant to the HKMA within 3 months from the date of issuance of an eligible bond and must provide supporting documents. Application forms for the PBGS are available from the HKMA.<sup>17</sup>

The HKMA encourages issuers and lead arrangers to contact the HKMA early in the issuance process to confirm eligibility of the issue and related expenses. Registered Institutions (i.e., licensed intermediaries in the capital market that service the issuer and the issuance) are expected to support the issuer in completing and submitting the grant application.

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<sup>15</sup> In the PBGS conditions, the term "associate" refers to (i) a person or corporation over which the issuer has control, (ii) a person or corporation which has control over the issuer, or (iii) a person or corporation that is under the control of the same person or corporation as the issuer.

<sup>16</sup> First-time issuance is defined as an issuer not having issued bonds in Hong Kong, China between 10 May 2013 and 9 May 2018 (the day preceding the HKMA announcement), both days inclusive. The credit rating agencies recognized by the HKMA are Fitch Ratings, Moody's Investors Service, Rating and Investment Information, Inc., and S&P Global Ratings.

<sup>17</sup> Issuers and lead arrangers may request a PBGS application from the HKMA via [pbgs@hkma.gov.hk](mailto:pbgs@hkma.gov.hk).