

# Bond Market Costs and Taxation

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This chapter details the typical costs incurred by issuers and investors in the Hong Kong bond market, with a particular emphasis for costs associated with bond or note issuance and settlement.

For ease of reference, the descriptions of the types of costs are given in the context of the actions to be taken by issuers or investors (as explained in this document) and follow the lifecycle of a bond or note or in the Hong Kong bond market.

## A. Costs Associated with Bond and Note Issuance

### 1. Submission of Application for Authorization to the Securities and Futures Commission (Public Offers)

All documents containing offers of bonds and notes to the public in Hong Kong, China require the authorization of the SFC. For details and conditions of the application process, please refer to Chapter II.F.

The SFC applies a fee for the application process, payable at the time of submission of the application and in case of any re-submission of amendments to the application or supporting documents. The fee is not refundable in the case of an unsuccessful application.

### 2. Arranger and Listing Sponsor Fee (Optional)

The appointment of an arranger or listing sponsor in the Hong Kong bond market is not mandatory. The sponsor or listing agent is, among other roles, responsible for the submission of listing applications and supporting information to the relevant regulatory authorities.

The arranger will charge a fee, which should be expected to follow established market practice and may be subject to negotiations between issuer and arranger.

### 3. Underwriter Fee (Optional)

Issuers are not required by law to appoint an underwriter in Hong Kong, China; often, the arranger performs the role of an underwriter as well. However, some offers of bonds and notes may require the services of one or more underwriters to place the debt securities with Institutional Investors or distribute the issuance to the public.

Underwriters charge a fee, typically commensurate with the effort and risk of taking over parts or all of a bond or note issue from the issuer. This fee or service charge should be expected to follow established market practice and may be subject to negotiations between issuer and underwriter(s).

#### 4. Agent Fees (Mandatory and Optional)

In the Hong Kong bond market, the appointment of a number of agents in the context of a bond or note issuance is mandated to ensure effective and professional administration of the issue, a division of duties, and the observance of international best practice. The facility agent will administer the issuance process of debt instruments into the market, while a paying agent is responsible for handling the cash flow at issuance, for benefits arising from the issue, and upon redemption. The trustee holds the fiduciary responsibility towards the bond- or noteholders, and acts in the case of default or distress.

Facility and paying agents, as well as the trustee, are remunerated for their services based on market practice.

#### 5. Central Moneymarkets Unit and Central Clearing and Settlement System Fees

Certain costs and fees are incurred by the issuer or issuing agent for the creation or admission of new debt securities in the CMU and CCASS, respectively. The fee schedules for both the CMU and CCASS are available from the websites of the HKMA and HKEX, respectively.<sup>84</sup>

##### *a. Fees Relating to New Issues of a Central Moneymarkets Unit Instrument*

The CMU levies a fee of HKD1,500 for every new issue of a CMU Instrument, which is to be borne by the issuer or issuing agent. The same fee applies for every instrument created through a CMU tender offer.

##### *b. Fees Relating to Debt Securities in the Central Clearing and Settlement System*

In principle, a registration and transfer fee applies for the re-registration of securities in the name of HKSCC Nominees Limited. However, this fee is not applicable for EFNs, government bonds, specified instruments, CMU Instruments, and foreign securities.

## B. Ongoing Costs for Issuers of Corporate Bonds and Notes

Resident and nonresident (foreign) issuers in the Hong Kong bond market tend to appoint a commercial bank as the paying agent for their corporate bonds or notes. This service provision is likely to result in the following charges:

#### Interest Payment and Redemption Fees

##### *a. Central Moneymarkets Unit Instrument*

The CMU charges an income distribution service fee relating to CMU Instruments at a cost of HKD1,000 per issue and per income event. The cost is to be borne by the paying agent.

<sup>84</sup> See [http://www.hkma.gov.hk/media/eng/doc/key-functions/financial-infrastructure/infrastructure/CMU\\_Tariff.pdf](http://www.hkma.gov.hk/media/eng/doc/key-functions/financial-infrastructure/infrastructure/CMU_Tariff.pdf)

*b. Debt Securities in the Central Clearing and Settlement System*

HKSCC charges 0.12% of the aggregate of the cash amount of debt securities' interest paid to participants in one currency on the same day, subject to a maximum of HKD10,000 (or its equivalent in foreign currencies). The fee and other applicable bank charges will be deducted at source at the time of distribution to participants. The fee is also applicable to EFNs, government bonds, specified instruments, CMU instruments, and foreign debt securities.

A handling fee is charged for the conversion, redemption, and corporate actions of registered and bearer debt securities. The handling fee is also applicable to EFNs, government bonds, specified instruments, CMU instruments, and foreign debt securities.

HKSCC may also charge disbursements and other out-of-pocket expenses, as incurred, to participants.

**C. Costs for Deposit and Withdrawal of Bonds and Notes**

Deposit and withdrawal fees may only be applicable to eligible securities deposited and settled in CCASS.<sup>85</sup> CMU Instruments are in scripless form only.

**1. Deposit Fee**

The deposit of eligible securities into CCASS presently does not incur a fee.

**2. Withdrawal Fee**

The withdrawal of eligible bearer debt securities incurs a fee of HKD100 per certificate. A withdrawal of foreign debt securities incurs a fee of HKD600 per instruction plus reimbursement for out-of-pocket expenses incurred by HKSCC.

**D. Costs for Account Maintenance at the Central Moneymarkets Unit and Central Clearing and Settlement System****1. Account Maintenance Fee at the Central Moneymarkets Unit**

There is no account maintenance fee for CMU accounts. At the same time, a custodian fee applies to account holders that are institutions. (The CMU does not charge a custodian fee to accounts that are held by individuals.) The custodian fee is charged in basis points on a sliding scale on the basis of the monthly average nominal value of securities held in the CMU account. The fee is charged to CMU participants.

The custodian fee sliding scale is as follows:

Up to HKD15,000 million	0.32 basis points
HKD15,000–HKD20,000 million	0.30 basis points
Over HKD20,000 million	0.25 basis points

The CMU tariff also applies to holdings relating to the CMU's linkages with AustraClear in Australia, and Korea Securities Depository in the Republic of Korea.

<sup>85</sup> The current CCASS fee schedule for Depository and Nominee Services is available at [https://www.HKEX.com.hk/eng/market/clar/secclr/feeschedule\\_hksccl/dns\\_fees/t3.htm](https://www.HKEX.com.hk/eng/market/clar/secclr/feeschedule_hksccl/dns_fees/t3.htm)

## **2. Account Maintenance Fee at the Central Clearing and Settlement System**

HKSCC does not charge an account maintenance fee as such. Nonetheless, HKSCC charges a statement service fee of HKD10 per account per month for participants maintaining stock segregated accounts with statement service in CCASS.

The custody fee of bearer debt securities, EFNs, and specified instruments held in the CCASS Depository is charged at 0.012% (1.2 basis points) per annum on the nominal value calculated on a daily basis, subject to a maximum of HKD300,000 per month per participant (fee calculated on aggregate daily balance of nominal values of bearer debt securities, EFNs, and/or specified instruments in the account of each participant).

In the HKSCC fee schedule, the term Portfolio Fee is used only for China Connect securities, which does not include debt securities as of May 2016.

## **E. Costs Associated with Bonds and Notes Trading**

### **1. Brokerage Fee (applicable to trades on the Stock Exchange of Hong Kong Limited)**

Effective 1 April 2003, the brokerage of security transactions became freely negotiable between brokers and their clients.

### **2. Trading Fee (applicable to trades on the Stock Exchange of Hong Kong Limited only)**

A trading fee of 0.005% per side of the consideration of a transaction (rounded to the nearest cent) is payable to SEHK. There is no trading fee on Securities Market Maker transactions.

### **3. Trading Tariff (applicable to trades on the Stock Exchange of Hong Kong Limited only)**

A trading tariff of HKD0.50 is payable to SEHK on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff on to investors is at the discretion of brokers.

### **4. Transaction Levy (applicable to trades on the Stock Exchange of Hong Kong Limited only)**

Effective 1 November 2014, a transaction levy of 0.0027% (rounded to the nearest cent) is charged per side of the consideration of a transaction, and the amount is collected for the SFC. There is no transaction levy on Securities Market Maker transactions.

### **5. Brokerage Fee (Unlisted Debt Securities)**

Market participants trading unlisted debt securities for their investor clients in the OTC market may also charge brokerage fee or levy other such charges for each trade, subject to their own conditions and considerations.

## F. Costs for Settlement and Transfer of Bonds and Notes

Settlement and transfer fees for CMU and CCASS transactions are described below.

### 1. Transaction Fee (Settlement and Transfer Fee)

#### a. Central Moneymarkets Unit Instrument

The CMU charges a transaction fee of HKD20 for all settlements of CMU Instruments, regardless of whether the settlement is done delivery-versus-payment or free-of-payment. In-house transfers, the movement of CMU Instruments between CMU accounts, attract a transfer fee of HKD10 per transfer.

Repo transactions other than a bank repo do not attract a transfer fee.

The CMU tariff also applies to transactions relating to CMU's linkages with Austraclear in Australia, and Korea Securities Depository in the Republic of Korea.

#### b. Debt Securities in the Central Clearing and Settlement System

The settlement fee applied by HKSCC depends on the nature of the trade as shown in Table 6.1.

**Table 6.1: Settlement Fee for Hong Kong Exchanges and Clearing Limited Trades in the Central Clearing and Settlement System**

Nature of Transaction		Fee Amount
Exchange Trade	Broker–broker trade	0.002% of gross value of an SEHK trade, subject to a minimum fee of HKD2 and maximum of HKD100 per side per trade
	Crossed trade (where the same Exchange Participant handles buy and sell side of a trade)	0.001% of gross value of a crossed trade, subject to a minimum fee of HKD1 and maximum of HKD50 per side per trade
SI Transaction	Broker–custodian or clearing agency participant transaction	0.002% of gross value of an SI transaction, subject to a minimum fee of HKD2 and maximum of HKD100 per side per SI transaction
	Other SI transactions (e.g., stock borrowing or lending, stock pledging, and portfolio movement)	0.002% of gross value of a SI transaction, subject to a minimum fee of HKD2 and maximum of HKD100 per side per SI transaction
ISI Transaction	Investor–broker or custodian participant transaction	Nil

ISI = Investors Settlement Instruction, SI = Settlement Instruction, SEHK = The Stock Exchange of Hong Kong Limited.

Source: Compiled by ADB Consultants for SF1 from Hong Kong Exchanges and Clearing Limited Fee Schedule and Clearing and Settlement Services.

[https://www.hkex.com.hk/eng/market/clr/secclr/feeschedule\\_hksc/cco\\_fees/t1.htm](https://www.hkex.com.hk/eng/market/clr/secclr/feeschedule_hksc/cco_fees/t1.htm)

The transfer of EFNs and/or specified instruments between a participant and a recognized CMU dealer is charged the same tariff as a Transfer Instruction.<sup>86</sup>

<sup>86</sup> Please see the full fee schedule for Transfer Instructions in the CCASS Tariff (Section 21.3A) at <http://www.hkex.com.hk/eng/rulesreg/clearrules/ccassop/documents/sec21.pdf>

HKSCC may charge disbursements and out-of-pocket expenses in connection with clearing and settlement services to participants as incurred.

## G. Taxation Framework and Requirements

Residents and nonresidents investing in the Hong Kong bond market are charged no withholding tax on fixed income from debt securities. Table 6.2 provides an overview of the applicability of and practices for the relevant taxes, with details explained in the subsequent sections.

**Table 6.2: Duties and Taxes on Fixed-Income Securities in Hong Kong, China**

Duties and Tax	Type of Bond	Tax Rate
Withholding Tax	Government	Not applicable
	Corporate	Generally, no withholding tax
Capital Gains Tax	Government	Not applicable
	Corporate	Not applicable
Stamp Duty	Government	Stamp duty on SEHK transactions: 0.1% of the value of the transaction on both the buyer and the seller
	Corporate	Stamp duty on contract notes: HKD1 for every HKD1,000 and part thereof on the transaction value <sup>a</sup>
GST and VAT	Universal	Not applicable

GST = goods and services tax, SEHK = The Stock Exchange of Hong Kong Limited, VAT = value-added tax.

<sup>a</sup> See stamp duty conditions under Section 4.

Source: Compiled by ADB Consultants for SF1 from public domain sources.

### 1. Profits Tax

Full exemption from profits tax for interest income and trading profits with respect to certain debt instruments is granted under section 26A of the Inland Revenue Ordinance.<sup>87</sup> These debt instruments include, among others, long-term debt instruments with an original maturity of not less than 7 years.

In addition, pursuant to section 14A of the Inland Revenue Ordinance, a tax concession at 50% of the normal profits tax rate is applied to interest income and trading profits derived from a debt instrument that satisfies the following criteria:

- a. it is lodged with and cleared by the CMU operated by the HKMA;
- b. it has an original maturity of not less than 3 years but less than 7 years;
- c. it has a minimum denomination of HKD50,000 or its equivalent in a foreign currency;
- d. it is issued to the public in Hong Kong; and
- e. it is issued by a person and has at all relevant times a credit rating acceptable to the HKMA from a credit rating agency recognized by the HKMA.

### 2. Withholding Tax

<sup>87</sup> See <http://www.hkii.org/eng/hk/legis/ord/112/s26A.html>

Residents and nonresidents investing in the Hong Kong bond market are charged no withholding tax on dividends and fixed income. Interest income derived from bond holdings is not taxable for individuals.

For corporations, interest on bonds issued by the government and government related entities are not taxable; other interest is taxable if it has a Hong Kong, China source. Thus, interest on a corporate bond listed on SEHK is taxable.

### 3. Capital Gains Tax

There is no capital gains tax in Hong Kong, China.

### 4. Stamp Duty

In principle, a stamp duty is applicable on securities, including debt securities traded in Hong Kong, China. However, a stamp duty is only applicable to shares and those registered debt securities that are not considered loan capital. In turn, most debt securities are structured so that no stamp duty is payable.

Under the Stamp Duty Ordinance, the stock of the transfer which is *required to be registered in Hong Kong, China* is subject to stamp duty. There are various exclusions to the definition of stock, including any Exchange Fund debt instrument, certain non-HKD-denominated debt securities, etc. Part VA of the Stamp Duty Ordinance also provides relief for certain types of *sukuk*.

If a stamp duty is payable, the following applies:

- a. Stamp duties and transaction levies are payable on transactions by both buyer and seller. Both the buyer and seller are charged at 0.1% of the consideration by the Inland Revenue Department of Hong Kong, China. Any fraction in the ad valorem stamp duty will be rounded up to the nearest HKD1.
- b. A transfer stamp duty must be paid by the seller on transactions for securities, which are physically settled and not cleared in CCASS. This transfer stamp duty is charged at the rate of HKD5 per transfer deed by the Inland Revenue Department of Hong Kong, China.

For trades executed on SEHK, the stamp duty is included in the contract note issued by the broker. The broker pays ad valorem stamp duty on behalf of their clients on T+2. It is the responsibility of the investor to ensure that stamp duty is paid at the correct rate or else severe penalties can be imposed for nonpayment under the Stamp Duty Ordinance.

### 5. Value-Added Tax or Goods and Services Tax

There is no value-added tax or goods and services tax in Hong Kong, China.

### 6. Double Taxation Agreements

There is principally no withholding tax on interest from debt securities in Hong Kong, China. Hence, there are no double taxation agreements with respect to interest received on debt securities issued in Hong Kong, China and no tax reclamation procedures are applicable.

### 7. Tax Exemption for Nonresident Investors

A tax exemption for nonresident investors is not applicable since Hong Kong, China does not have capital gains and withholding taxes on the income or considerations from debt securities.