

Overview

A. Introduction

The bond market in Hong Kong, China has for some time been a significant market place for issuers and investors in both domestic and foreign currencies. The range of product offerings, open access for issuers and investors (both domestic and international), and the increasing significance of offshore Chinese renminbi bond issuances make the Hong Kong bond market one of the most frequented bond markets in Asia.

Public sector bonds come in the form of (i) government bonds, (ii) Exchange Fund Bills and Notes (EFBNs) issued by the Hong Kong Monetary Authority (HKMA); (iii) bonds issued by statutory bodies (e.g., Airport Authority Hong Kong and Hong Kong Housing Authority); and (iv) bonds issued by government-related corporations (e.g., Bauhinia Mortgage-Backed Securities Limited, Hong Kong Mortgage Corporation, and Hong Kong Link 2004 Limited).

The Central Moneymarkets Unit (CMU) was set up primarily to provide computerized clearing and settlement facilities for EFBNs, which provide benchmark yields that guide private debt pricing. In December 1993, the HKMA extended the service to other Hong Kong dollar debt securities. Since December 1994, the CMU has been linked to international clearing systems such as Euroclear, which has helped promote Hong Kong dollar debt securities to overseas issuers and investors. The CMU is also available for foreign-currency-denominated debt, including Australian dollars, Chinese renminbi, euros, New Zealand dollars, Singapore dollars, and US dollars.

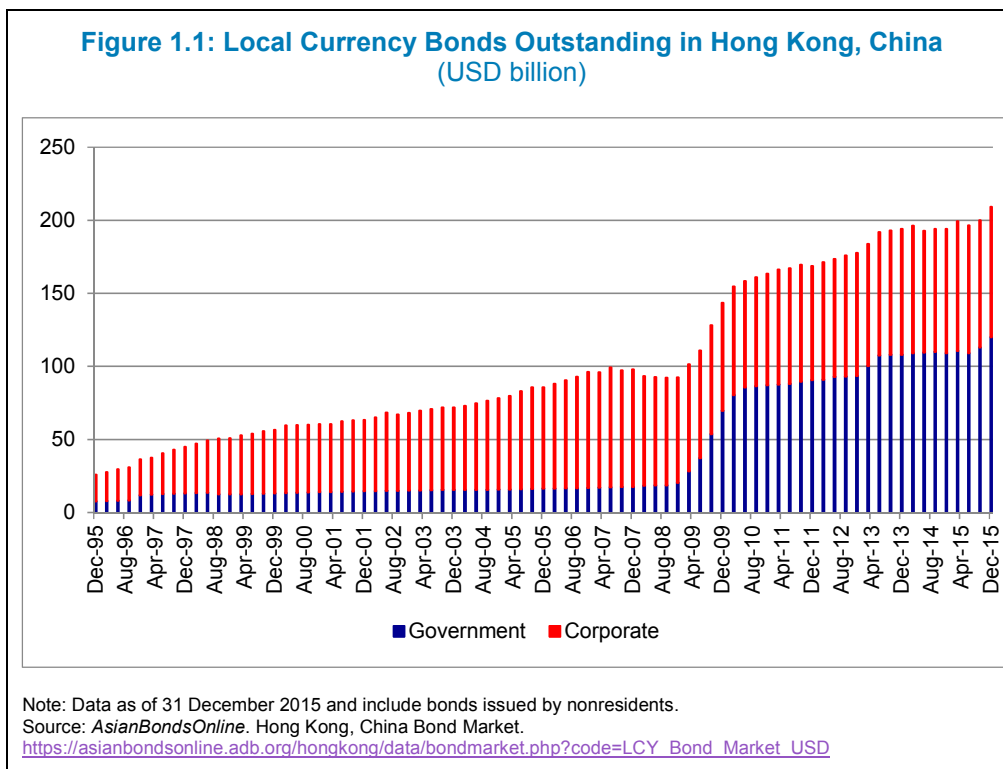
In December 1996, an interface between the CMU and the real-time gross settlement (RTGS) interbank payment system was established. This enables the CMU system to provide its members with real-time and end-of-day delivery-versus-payment services.

Bond trading takes place mostly through over-the-counter (OTC) markets. However, some bonds are also listed and may be traded on the securities market of Hong Kong Exchanges and Clearing Limited (HKEX), which is the holding company that owns The Stock Exchange of Hong Kong Limited (SEHK), which operates the stock exchange in Hong Kong, China.

Hong Kong, China is a preferred location within Asia for bond issues by foreign and domestic corporations—as well as supranational borrowers—because of the ease with which investors can access the market and international clearing systems. In addition, a wide range of asset classes is available for securitization. The two main securitized asset classes are (i) residential and commercial mortgages and (ii) HKMA claims on central governments and central banks. The Hong Kong Mortgage Corporation, which was established by the HKMA, and Hong Kong Link 2004 Limited were set up to facilitate securitization of residential mortgages and toll facilities, respectively.

To promote the development of the local debt market, authorities introduced a number of new products, expanded and improved market infrastructure, and provided a tax and regulatory environment conducive to market development.

In the Hong Kong dollar debt market, the total issuance volume of Hong Kong dollar debt instruments continued to grow to a record level in 2015 (Figure 1.1). Further measures were implemented by the Hong Kong Special Administrative Region (HKSAR) to support the development of the local bond market under the Government Bond Programme, including the issuance of a second *sukuk* (Islamic bond) in June and the debut of a 15-year Government Bond in July.



Overseas issuers continued to tap the Hong Kong dollar market in 2015, with issuance volume rising by 16.5% from 2014. Overseas corporates could also expand their investor base and broaden funding sources through issuance in Hong Kong, China, thereby strengthening their funding structure.

Starting in 2015, the tenors of bonds issued under the EFBN Programme and the Government Bond Programme were streamlined. The HKMA now only issues new EFBNs for tenors of 2 years or less, and new Government Bonds for tenors of 3 years or more. After the streamlining, there is now a unitary benchmark yield curve representing the long-run credit standing of the Government of the HKSAR of the People's Republic of China (PRC), with EFBNs providing the benchmark yield for 2 years or less and Government Bonds providing the benchmark yield for 3 years or more. A unitary benchmark yield curve provides a better reference for issuers in pricing their Hong Kong dollar issues.

The government also issued a HKD10 billion inflation-linked bond, or iBond, in 2015. It was the fifth-consecutive series of iBonds since 2011. The number of valid applications was a record-high 597,895, with total subscriptions of nearly HKD36

billion. According to market sources, first-time investors have made up between 9% and 15% of the successful subscribers in the past five issuances. The iBond issuances not only provided an additional choice of investment to the public, but also sustained the growth momentum of the local bond market through enhancing public awareness of, and interest in, bond investments. The iBond issuance successfully broadened the investor base of the local bond market, encouraging more issuers to consider tapping the market through retail issuance.

Through the implementation of the Government Bond Programme, the HKMA continues to support the development of the Hong Kong dollar debt market. Ongoing communication with market participants enhances the competitiveness of the local market as a fund-raising platform. With a view to supporting the development of Islamic finance in the local market, the government will launch another *sukuk* when market conditions are favorable.²

The regulatory environment is also conducive to the implementation of the proposed ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF) developed by the ASEAN+3 Bond Market Forum (ABMF) under the guidance of the Asian Development Bank (ADB). The key features of the Hong Kong bond market are further enhanced by the acceptance of governing laws other than those of Hong Kong, China for professional bond and note issuances, and documentation and disclosure standards close to those of international markets. Further details on AMBIF can be found in Chapters IX and X.

For more information on recent initiatives and developments with relevance for the Hong Kong bond market, kindly also refer to Chapters IX and X.

² Selected statements adopted from Hong Kong Monetary Authority. *Quarterly Bulletin March 2016*. Hong Kong, China.