

Press release

LCQ17: Measures to promote the development of the bond market

Wednesday, July 17, 2013

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (July 17):

Question:

Some members of the securities industry have pointed out that although the Government has been advocating the development of the local bond market over the past 10-odd years and has launched measures to promote related developments, the local bond market is still developing at a slow pace, and the scale of issuance of bonds is not commensurate with Hong Kong's status as an international financial centre. In this connection, will the Government inform this Council:

(a) of the total amount of bonds issued in the bond market of Hong Kong in the past 10 years;

(b) of the issuance of bonds by the Government and public organisations in the past 10 years (set out in the Table 1 of Annex 1);

(c) whether the authorities have conducted any assessment on and set any target for the progress of development of the local bond market; if they have, of the details; if not, the reasons for that;

(d) apart from issuing inflation-linked retail bonds and developing the Islamic Bond market in Hong Kong, how the Government will further promote the development of the local bond market, including the retail bond market; given that some organisations have proposed that the Government should encourage public organisations such as the MTR Corporation Limited and the Airport Authority to issue bonds for financing various infrastructure projects, so as to increase the types and quantities of bonds issued, whether the authorities have studied and taken forward such proposal; if so, of the details; and

(e) given that some organisations have proposed that the Government should expand the trading platform for local bonds, e.g. developing an electronic bond trading platform by making use of e-Cert certification services, so as to increase the turnover and facilitate

the popularisation of the bond market, whether the authorities have studied and taken forward such proposal; if so, of the details?

Reply:

President,

(a) The amount of Hong Kong dollar (HKD) debt securities (including bonds, shorter-tenor papers such as bills, and other types of fixed income instruments) issued in Hong Kong in the past ten years is set out in Table 2 of Annex 1.

(b) The Government, statutory bodies and Government-owned corporations made in total 654 issuances of HKD institutional and retail debt securities in the past ten years. The total issued amount was about HK\$264.2 billion (please see Tables 1 and 2 of Annex 2 for details). The figures do not include Exchange Fund Bills and Notes (EFBNs) issued. As debt issuers did not usually announce the subscription amount of respective debt issuances, such information is not available.

(c) To promote the development of the local bond market, with the approval of Legislative Council (LegCo), the Government established the Government Bond Programme (GBP) in 2009 with a size of HK\$100 billion. The objectives of GBP are to promote the development of the local bond market in order to expand its scale and broaden its investor base. The Financial Secretary announced in the 2013-14 Budget the proposal to expand the size of the GBP to HK\$200 billion to promote the further sustainable development of the local bond market. The relevant resolution was passed by LegCo on May 22, 2013.

In relation to the implementation of the relevant proposal, the Government consulted the LegCo Panel on Financial Affairs on April 8, 2013, setting out the assessment on the development of the local bond market (www.legco.gov.hk/yr12-13/english/panels/fa/papers/fa0408cb1-781-7-e.pdf).

Relevant information was also set out in a LegCo brief issued on April 24, 2013 (www.fstb.gov.hk/fsb/ppr/legco/doc/b240413_e.pdf). In essence, the local bond market has grown considerably in the past five years, and has been providing an alternative and effective financing channel for corporates. Nonetheless, when compared with economies with a similar level of development, there is still room for development and to attract major foreign investors (such as global bond investment funds) to participate in the local bond market.

(d) The Government promotes the development of the local bond market mainly through implementing the GBP. As at end June 2013, a total of HK\$97.5 billion of bonds, including HK\$67.5 billion of institutional bonds and HK\$30 billion of retail bonds (i.e. iBonds), were issued under the GBP. The bond issuances under the GBP were well received by market. According to market feedback, the issuance of institutional bonds under the GBP attracted some new non-bank institutional investors that had never participated in the HKD bond market before. In addition, applications for iBonds issuances set successive records in the local retail bond market. The above demonstrates that the implementation of the GBP has helped broaden progressively the institutional and retail investor base of the local bond market.

The Government will continue to promote the development of the local bond market through implementing the GBP with a view to fostering its growth. The Government will, having regard to market needs, issue appropriate debt securities in future under the GBP.

The LegCo has enacted the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 on July 10, 2013. The Ordinance, to be gazetted on July 19, 2013 and to take effect on the same day, establishes a taxation framework for Islamic bonds issuances and will facilitate the development of Islamic bond issuances and trading in Hong Kong.

In general, statutory bodies and Government-owned corporations, similar to other corporates, will consider primarily the diversification and stability of funding sources at reasonable costs when raising funds. According to records, a number of statutory bodies and Government-owned corporations have already issued bonds to raise funds. Having regard to their corporate needs, they issued in total about HK\$97.6 billion HKD debt securities between 2008 and 2012 (please see Table 2 of Annex 2 for details).

(e) Institutional investors such as banks, investment funds, pension funds and insurance companies are the major investors in the local bond market. They usually trade bonds directly through financial intermediaries (e.g. commercial banks). This is similar to the situation of other foreign bonds markets.

Apart from trading bonds through financial intermediaries directly, retail investors may trade bonds listed on the Stock Exchange of Hong Kong (HKEx) through the automated channels provided by exchange participants (e.g. electronic trading platform or telephone hotline) via the electronic trading platform of HKEx.

According to the HKEx, the number of listed debt securities grew from 192 at end 2011 to 269 at end 2012 and 355 at end June 2013. The total bond trading amount has also increased substantially from HK\$0.84 billion in 2011 to HK\$2.77 billion in 2012. In the first half of 2013, the bond trading amount has already reached HK\$2.4 billion. The above has demonstrated that the HKEx trading platform has already provided a very useful and cost-effective bond trading channel for investors. We would continue to promote enhancement of the existing bond trading platform infrastructure to meet evolving market needs and reinforce the attractiveness of our bond market.

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