HONG KONG DOLLAR DEBT MARKET DEVELOPMENTS IN 2000

New issues of Hong Kong dollar debt securities increased in 2000. The growth was attributable to an increase in debt issuance by Exchange Fund, authorized institutions, Multilateral Development Banks (MDBs) and non-MDB overseas borrowers, which more than offset the reduction in issuance by local corporates and statutory bodies. In addition, outstanding Hong Kong dollar debt continued to grow at a moderate pace, as new issuance activity exceeded the amount of debt maturing in the year.

A number of impediments to bond market development in Hong Kong were identified in a review exercise conducted by the HKMA. These included deficiencies in secondary market liquidity, the investor base, the benchmark yield curve, the tax treatment for corporate bonds, and the debt issuance and listing framework. As part of its efforts to overcome these impediments, the HKMA has undertaken several initiatives to further enhance the liquidity and transparency of the Exchange Fund paper market. These include setting up a comprehensive system for evaluating the performance of market-makers; replacing shorter-dated paper with longer-dated paper; and publishing an advance quarterly issuance schedule of Exchange Fund paper. Meanwhile, the implementation of the US dollar clearing system, which provides delivery versus payment capability for US dollar-denominated debt securities, may help to internationalise the local debt market.

Market Overview

In 2000, new issuance of Hong Kong dollar debt amounted to HK$456 billion, registering a 9% increase over 1999 (Chart 1). The growth was attributable to an increase in debt issuance by the Exchange Fund[1], Multilateral Development Banks (MDBs)[2], non-MDB overseas borrowers, and authorized institutions (AIs)[3], which more than offset the reduction in issuance by statutory bodies[4] and local corporates. Issuance was particularly active in the first three quarters of 2000 on the back of strong demand for high quality paper, and a benign interest rate environment.

Outstanding Hong Kong dollar debt continued to grow moderately (Chart 2), rising from HK$444 billion at end-1999 to HK$473 billion at end-2000, of which Exchange Fund paper accounted for about 23%. The remainder was composed of debt instruments such as bonds, floating rate notes, negotiable certificates of deposit, and asset-backed

1 New issuance of Exchange Fund paper was limited to replacing maturing issues and covering interest payments on existing paper, after the introduction of measures to strengthen the currency board system in 1998.

2 MDBs refer to Asian Development Bank, Council of Europe, European Company for the Financing of Railroad Rolling Stock, European Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, World Bank, International Finance Corporation, African Development Bank, and Nordic Investment Bank. Income on debt securities issued by the MDBs is exempted from profit tax.

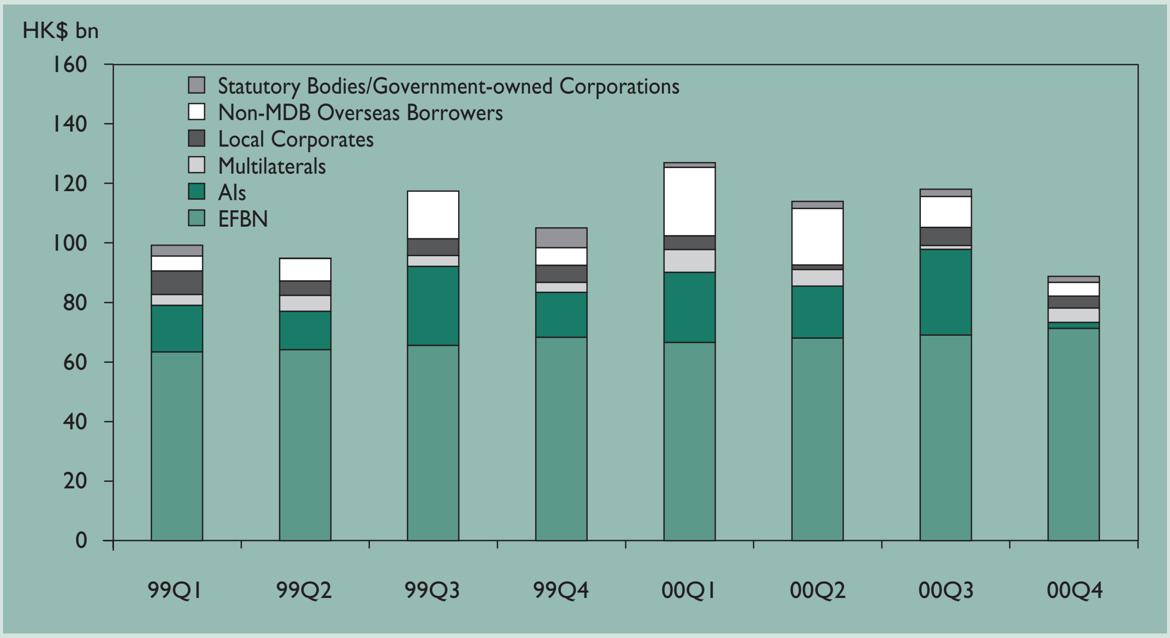
3 AIs include licensed banks, restricted licence banks (RLB)s, and deposit-taking companies (DTCs).

4 Including government-owned corporations.

securities, issued by statutory bodies (5%), MDBs (12%), non-MDB overseas borrowers (17%), AIs (35%), and local corporates (8%). A detailed breakdown of issuance activities and outstanding amount is in Annex A.

Chart 1

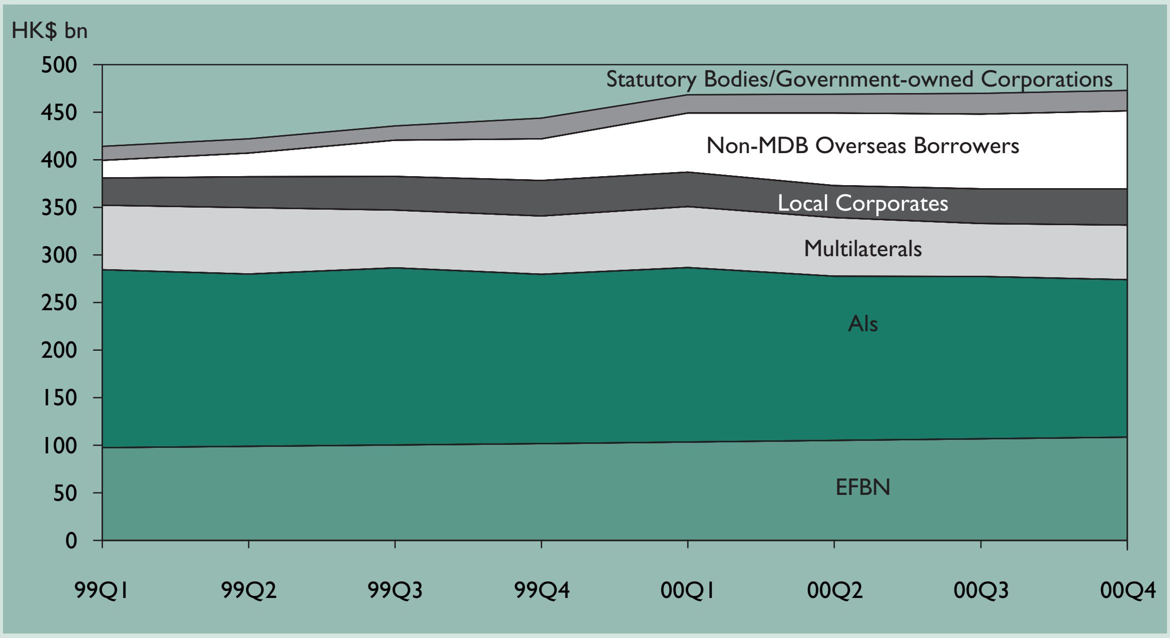
New Hong Kong Dollar Debt Securities Issued (HK$ billion)



Source: HKMA, Bloomberg, Basisfield, and Thomson Financial.

Chart 2

Hong Kong Dollar Debt Securities Outstanding at Quarter-end (HK$ billion)



Source: HKMA, Bloomberg, Basisfield, and Thomson Financial.

Hong Kong Dollar Fixed-rate Debt Market

In 2000, fixed-rate debt issuance, excluding Exchange Fund paper, amounted to HK$125 billion, representing a 32% increase over 1999, and constituted 69% of total issuance in the year, compared with 61% in 1999. While MDBs, non-MDB overseas borrowers, and AIs stepped up their issuance of fixed-rate debt in the year, issuance activities of statutory bodies and local corporates slackened. In particular, non-MDB overseas borrowers registered the largest increase, taking advantage of favourable pricing conditions, particularly during the first half of 2000. At the end of 2000, outstanding fixed-rate debt, excluding Exchange Fund paper, amounted to HK$228 billion, a 23% increase over end-1999. The average maturity profile of all outstanding fixed-rate debt at end-2000 was similar to that in 1999 (Table 1).

Hong Kong Dollar Floating-rate Debt Market

Floating-rate debt issuance, on the other hand, declined by 8% to HK$56 billion in 2000 (Chart 3). Correspondingly, its share in total Hong Kong dollar debt issuance, excluding Exchange Fund paper, fell from 39% in 1999 to 31% in 2000. The slowdown was largely attributable to a shift from floating-rate to fixed-rate debt issuance by non-MDB overseas borrowers. In addition, MDBs and statutory bodies, which tapped the floating-rate market in 1999, were absent from this market in 2000.

Table 1
Average Maturity of Outstanding Fixed-rate Debt at Quarter-end

Issuer	Average Maturity (Years)				
	99Q4	00Q1	00Q2	00Q3	00Q4
Exchange Fund	1.2	1.2	1.2	1.2	1.2
Statuory Bodies/ Government-owned Corporations	1.8	1.8	1.9	1.7	1.7
MDBs	1.8	1.9	2.1	2.2	2.3
Non-MDB Overseas Borrowers	1.4	1.8	1.5	1.6	1.6
AIs	2.1	2.2	2.2	2.1	2.0
Local Corporates	2.4	2.6	2.4	2.5	2.7
All Issuers	**1.7**	**1.8**	**1.7**	**1.7**	**1.7**

Sources: HKMA, Bloomberg, Basisfield, and Thomson Financial.

Issuance Activity by Type of Issuer

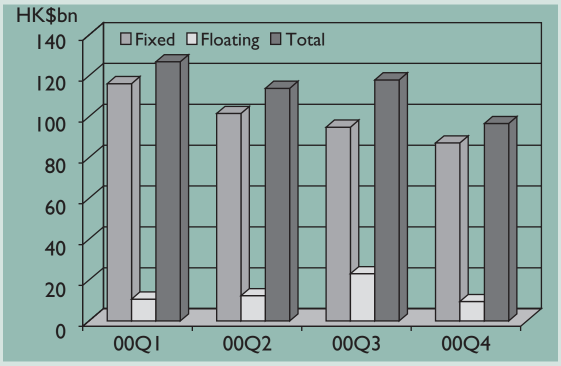
Authorized Institutions

In 2000, new Hong Kong dollar debt issued by AIs amounted to HK$80 billion, up 13% from 1999. The increase largely reflected the rollover of the debt maturing in the year totalling about HK$92 billion, and strong demand for high quality paper at the shorter end.[5] Issuance was most active in the first three quarters of 2000, followed by a slowdown in the last quarter amid a reduction in refinancing needs and the uncertain interest rate outlook. At the end of 2000, outstanding debt of AIs stood at HK$166 billion, down 7% from end-1999, as the amount of debt maturing in the year exceeded new issuance.

Local Corporates

New local corporate debt issuance in 2000 declined to HK$16 billion, down 33% from 1999. The decline was largely attributable to a

Chart 3
New Fixed-rate and Floating-rate Debt Issued in Hong Kong (HK$ billion)



Source: HKMA, Bloomberg, Basisfield, and Thomson Financial.

5 Over 68% of new AI debt issuance had a maturity profile of less than three years.

substitution of bank financing for bond financing on the back of high liquidity in the banking sector, which provided corporate funding at competitive rates. In fact, some loans were made at rates comparable to levels prior to the 1997 Asian crisis. Tenors of loan facilities (mostly on floating-rate basis) were generally extended, in some cases to as long as 15 years. Top-rated local corporates continued to be the major issuers. In addition to straight fixed and floating-rate debt, corporates also issued mortgage-backed securities (MBS) and innovative synthetic MBS.[6] At the end of 2000, outstanding corporate debt stood at HK$38 billion, a 3% increase over 1999.

MDBs

Over the past year, MDBs raised HK$19 billion from the Hong Kong dollar debt market, a 22% increase over 1999. The increase in issuance activity was partly attributable to favourable pricing conditions, especially during the first half of the year. Notwithstanding the increase, outstanding MDB debt at end-2000 amounted to HK$57 billion, down about 7% from 1999, as the amount of debt maturing in the year exceeded new issuance.

Non-MDB Overseas Borrowers

New debt issuance by non-MDB overseas borrowers reached a record high of HK$57 billion in 2000, up 66% from 1999. The surge in issuance in part reflected opportunities to achieve favourable cost of funding, especially during the first half of 2000, strong domestic liquidity and demand for high quality paper, and the diversification of non-MDB overseas borrowers' investor base. In addition to Australian and European borrowers, which had previously been the major non-MDB overseas borrowers in the Hong Kong dollar debt market, Taiwanese issuers tapped the floating-rate market for the first time with two issues in the third quarter.[7] At end-2000, outstanding debt issued by non-MDB overseas borrowers stood at HK$82 billion, a 87% increase over 1999.

Statutory Bodies/Government-owned Corporations

New debt issuance by statutory bodies amounted to about HK$8 billion, down 20% from 1999. The Hong Kong Mortgage Corporation (HKMC) remained active in 2000 and issued a total of about HK$7 billion of notes and bills under its Note and Debt Issuance Programmes, with maturities ranging from 1 to 5 years. The HKMC signed a HK$1 billion Mortgage and Bond Asset Swap Programme with Dao Heng Bank at end-May 2000, with a view to expanding its mortgage assets.[8] This Programme would enable the HKMC to acquire mortgage assets even under adverse market conditions. At the same time, the bank counterparty could enjoy a higher return, including fixed interest yields on HKMC notes and fees for servicing the mortgage loans. In a bid to promote retail participation in the Hong Kong dollar debt market, the HKMC issued two fixed-rate deals with a retail tranche in the year. At the end of 2000, outstanding statutory body paper amounted to about HK$22 billion, marginally less than that of 1999.

Exchange Fund paper

New issuance of Exchange Fund paper, mainly rollover issues, amounted to HK$275 billion in 2000, up 5% from 1999. This accounted for about 60% of total new Hong Kong debt issuance in the year. Demand for Exchange Fund paper remained strong in 2000, with an average over-subscription rate for Exchange Fund Notes of about 6 times in the year, compared with 3 times in 1999. Average daily turnover of Exchange Fund paper amounted to HK$24 billion in 2000, almost 50% higher than in 1999. Outstanding Exchange Fund paper registered an increase of 7% from 1999, reaching HK$109 billion at the end of 2000.

6 The transaction used a credit default swap referenced to a pool of mortgages rather than actually transferring the assets as in normal MBS deals.

7 In 2000, Australian and European issuers accounted for 55% and 33% respectively of Hong Kong dollar debt issuance by non-MDB overseas borrowers.

8 Under the Programme, the HKMC purchased a portfolio of mortgage loans from the Dao Heng Bank, and the HKMC issued an equivalent amount of debt securities to the Bank. HK$600 million fixed-rate notes were issued in May 2000 as part of the asset swap arrangement. Similar asset swap arrangement with other banks will be considered by the HKMC in the future.

Measures to Promote Debt Market Development in Hong Kong

With a view to facilitating the further development of the local debt market, the HKMA conducted a review of the major impediments to debt market development in Hong Kong (see Annex B for details). To address the problem relating to the transparency and secondary market liquidity of the Exchange Fund Bills and Notes market, the HKMA has implemented a number of reforms. First, a comprehensive system has been set up to review the performance of market makers regularly. Secondly, the mix of issuance is to be shifted somewhat towards longer-dated paper, with the aim of maintaining a reasonable presence all along the yield curve. Thirdly, the HKMA has started to publish an advance quarterly issuance schedule of Exchange Fund paper.

In addition, the implementation of the US dollar clearing system, with the introduction of an interface between the US dollar Real Time Gross Settlement (RTGS) system and the Central Moneymarkets Unit (CMU), allows delivery versus payment (DvP) settlement of US dollar-denominated debt securities deposited in the CMU. This will enhance settlement efficiency and eliminate settlement risk, and should therefore increase the attraction of the local market to prospective issuers of US dollar instruments.

Conclusion

The Hong Kong dollar debt market continued to grow in 2000, with a wide array of products and longer average maturity profile of new issues. Looking ahead, private sector issuance is expected to remain strong on the back of continued economic recovery. Issuers may be motivated by the recent downward movement of interest rates, while the implementation of the Mandatory Provident Fund (MPF) Scheme in December 2000 should stimulate demand for high quality Hong Kong dollar paper. In addition, the more transparent and liquid government debt market should further support the activities of other issuers.

- Prepared by the Market Research Division

New Hong Kong Dollar Debt Securities Issued
(HK$ million)

	Exchange Fund	Statutory Bodies*	MDBs	Non-MDB Overseas Borrowers	AIs	Local Corporates	Total
99Q1	63,450	3,650	3,700	5,034	15,579	7,834	99,247
Q2	64,106	100	5,320	7,517	12,956	4,880	94,879
Q3	65,613	0	3,550	15,956	26,571	5,673	117,363
Q4	68,274	6,636	3,300	5,910	15,186	5,711	105,017
1999	**261,443**	**10,386**	**15,870**	**34,417**	**70,292**	**24,098**	**416,506**
00Q1	66,558	1,500	7,630	23,037	23,558	4,650	126,933
Q2	68,058	2,300	5,600	19,112	17,419	1,450	113,939
Q3	69,068	2,500	1,300	10,352	28,777	6,050	118,047
Q4	71,352	2,025	4,800	4,609	9,976	3,957	96,719
2000	**275,036**	**8,325**	**19,330**	**57,110**	**79,729**	**16,107**	**455,637**
Increase/ Decrease Over '99	**13,593**	**(2,061)**	**3,460**	**22,693**	**9,437**	**(7,991)**	**39,131**

Hong Kong Dollar Debt Securities Outstanding at Quarter-end
(HK$ million)

	Exchange Fund	Statutory Bodies*	MDBs	Non-MDB Overseas Borrowers	AIs	Local Corporates	Total
99Q1	97,450	14,916	67,687	18,631	187,154	28,517	414,355
Q2	98,806	14,936	69,807	24,766	181,219	32,497	422,031
Q3	100,363	14,936	60,837	38,217	186,035	35,320	435,708
Q4	**101,874**	**21,572**	**61,237**	**43,767**	**177,915**	**37,331**	**443,696**
00Q1	103,458	19,072	63,912	62,469	183,357	36,131	468,399
Q2	105,158	19,722	61,362	76,281	172,629	33,881	469,033
Q3	106,818	21,572	55,562	78,581	170,735	36,448	469,715
Q4	**108,602**	**21,502**	**57,012**	**81,840**	**165,656**	**38,405**	**473,017**
Increase/ Decrease Over '99	**6,728**	**(70)**	**(4,225)**	**38,073**	**(12,259)**	**1,074**	**29,321**

**including government-owned corporations*

Sources: HKMA, Bloomberg, Basisfield, and Thomson Financial.

A Review of Impediments to Bond Market Development in Hong Kong

I. Introduction

The Hong Kong debt market has experienced strong growth over the past decade. However, impediments remain that have impaired its efficiency and effectiveness in channeling domestic savings for local long-term investment. The corporate bond market, in particular, remains under-developed and domestic bond issuance continues to be a minor source of corporate funds relative to bank and equity financing. This review exercise identified the following major impediments to the local bond market development:

- Unfavourable tax treatment for corporate bonds;
- Deficiencies in the benchmark yield curve;
- Deficiencies in the debt issuance and listing framework;
- Narrow investor base;
- Restrictive credit rating requirements; and
- Low secondary market liquidity.

Options to address these impediments are discussed briefly below. Views of capital market practitioners were collected in the past few months. Although many of the measures may be desirable in principle, their feasibility of implementation differs.

II. Major Impediments to Bond Market Development in Hong Kong and Options to Address Them

a. Unfavourable tax treatment for corporate bonds

The current tax policy focuses on attracting international investors and issuers to the local debt market. In essence, this is done by granting: (a) profits tax exemption to income earned on Exchange Fund paper, multilateral development banks (MDBs) paper, and certificates of deposit (CDs) issued by authorized institutions (AIs) in Hong Kong that are held by non-financial institutions; and (b) a 50% tax concession for income earned on qualifying debt securities (QDSs).[9] A summary of the current tax treatment is shown in Table 1.

Such a hierarchy of tax treatment has led to a bias against corporate debt issuers. There are also differences in tax treatment among bank deposits, stocks, and corporate debt securities as only the former two categories are tax exempt. This has in turn discouraged investment in debt securities. Different tax treatment between bank CDs and corporate debt securities may also have the effect of encouraging corporations to borrow from banks instead of issuing debt to raise funds directly. These problems have to some extent affected the growth of the local corporate bond market.

Several options have been proposed, including granting full tax exemption to all Hong Kong dollar debt securities, or removing all the tax privileges. Even with either of these two extreme options, however, the problem of the uneven playing field between different investment instruments would remain. Some intermediate options could be considered, such as making only the non-bank holdings of debt instruments tax exempt, or removing tax exempt status of MDB issues.

9 QDSs are the Hong Kong dollar debt securities issued by the private sector which: (a) have a rating higher than the minimum credit rating set by the HKMA (currently at BBB - from S&P's); (b) have an original maturity not less than 5 years; (c) have a denomination not less than HK$50,000; (d) are issued to the public; and (e) are cleared through the CMU. Hong Kong dollar debt securities issued by statutory and government-owned corporations, such as Mass Transit Railway Corporation, Airport Authority, Hong Kong Mortgage Corporation and Kowloon-Canton Railway Corporation, will also qualify as QDSs if they can meet the above requirements, except condition (a).

In the light of the complexity of the tax issue and its far-reaching consequences on the financial activities in Hong Kong as well as on the fiscal position, the HKMA is sponsoring, through the Hong Kong Institute for Monetary Research (HKIMR), a fundamental study of the taxation of financial intermediation in Hong Kong. The research project is being undertaken by overseas academics, and the results of their study are expected to be published in the HKIMR working paper series.

b. Deficiencies in the benchmark yield curve

The introduction of the Exchange Fund Bills and Notes programme in March 1990 and its progressive expansion in the ensuing years has facilitated the creation of a Hong Kong dollar benchmark yield curve up to 10 years. However, regular issuance was curtailed in September 1998 after the introduction of the seven technical measures to strengthen the currency board system. Issuance was resumed in April 1999 with net additions reflecting interest payments on the existing Exchange Fund paper. However, new issuance was confined to 91-day bills, and the sizes and timetable were not regular. As a result, there had been increasing concentration of the maturity profile of Exchange Fund paper at the shorter end.

To redress the growing imbalance in the maturity profile of Exchange Fund paper, the HKMA decided in November 2000, following consultation with the Hong Kong Capital Markets Association (HKCMA), to adjust the issuance programme, so that additional longer-term paper would be issued in place of short-dated paper. A quarterly advance issuance schedule, showing the tentative issuance programme has been published, starting November 2000. The measure should improve market transparency and facilitate market players' liquidity management.

The creation of a quasi-government yield curve, based on debt issues of statutory bodies and government owned corporations, such as Hong Kong Mortgage Corporation, Airport Authority, Mass Transit Railway Corporation, and Kowloon-Canton Railway Corporation, could provide supplementary benchmark yields to facilitate pricing of private debt securities. However, the maturity range of these types of paper will need to be extended before a useful yield curve can be constructed.

c. Deficiencies in debt issuance and listing procedures

The listing of bonds on the Stock Exchange of Hong Kong (SEHK) and the issuance of bonds with denominations of HK$50,000 or above are subject to the registration and prospectus requirements stipulated in the Companies Ordinance and the Protection of Investors Ordinance. The process for authorization (by the Securities and Futures Commission) and registration (with the Companies Registry) for a prospectus is considered time-consuming and cumbersome by issuers.

A working group, led by the SFC, including market practitioners, officials from the Financial Services Bureau and the HKMA, representatives from the HKCMA, and lawyers, was formed in November 1999. It is examining the present laws and regulations with a view to streamlining existing documentation requirements and listing procedures, while not compromising market integrity and investor protection. The HKMA is working closely with the Working Group in the review process.

d. Narrow investor base

A small number of institutional investors, such as banks, contractual savings institutions (pension/provident funds, life insurance companies, and investment trust companies), and public funds currently dominate the local debt market. To widen the investor base, efforts to promote retail interest in bond investment and enlarge the product spectrum could be helpful.

Modest progress has been achieved by several measures introduced in 1999 and 2000 to promote retail interest in bonds, such as the listing of Exchange Fund Notes and statutory corporations' paper on the local stock exchange. Continued efforts could be made to enhance retail participation. Possible further steps which might be considered include the development of market-making for listed securities; promoting retail participation in the primary offering process for Exchange Fund paper, bonds of statutory bodies and those listed on the stock exchange; encouraging banks to take a pro-active role by offering bond investment services to their customers, and promoting public awareness and interest in bond investments.

Debt securities offered in Hong Kong are mostly simple fixed- and floating-rate issues that match the investment needs of public and private funds. Private sector initiatives in product innovation, such as the development of an asset-backed securities (ABS) market, and a foreign currency bond market could serve to widen the investor base.

Asset securitisation would provide instruments to investors with a high risk appetite and an avenue for banks to refinance their loans. The experience in the US, where ABS issues have been a fast-growing segment of the bond market, may provide a good reference for Hong Kong. Nonetheless, the introduction of ABS products would depend largely on private sector initiatives which in turn are based on risk-return considerations.

e. Restrictive credit rating requirements

Credit ratings are widely adopted in the investment guidelines of corporates and pooled funds, as part of the credit risk control mechanism, to direct investment choice of institutional investors with regard to their counterparties or instruments. Sometimes, restrictive credit rating requirements imposed by institutional investors limit the demand for Hong Kong dollar debt paper, especially corporate bonds. While the HKMA is not in a position to advise major shifts in investment strategies of investors, indirect measures to promote the interests of investors in corporate bond issues may be considered.

As fair and independent credit ratings are an integral part of a well-developed bond market, a wider use of credit rating services among debt issuers is conducive to market development. In this connection, continued efforts of existing international rating agencies to educate investors how to interpret their rating scales and understand their rating methodologies will be productive. Concurrently, any private sector initiatives to set up local credit rating agencies would be welcome.

To help relieve the problem of the generally low credit rating of Asian bond issuers, the HKMA has examined the scope for market-based credit enhancement or guarantee arrangements. The availability of guarantors of acceptable credit ratings and financial strength to lend credit ratings to particular debt issuers at a fee would undoubtedly help marketing the bond issues and foster market development.

f. Low secondary market liquidity

Market participants regard the lack of secondary market liquidity as a significant impediment to the further development of the local debt market. The HKMA has taken steps to strengthen the existing market making system for Exchange Fund Bills and Notes, including the establishment of objective performance criteria and a regular review procedure. However, a more active market for Exchange Fund paper will not necessarily deliver more activity to other market segments.

There have been a number of private sector initiatives to provide bond price information to the public, contributing to greater market transparency of the local bond market.

The HKMA supports the plan of Hong Kong Futures Exchange to launch Exchange Fund Notes futures. Bond futures contracts will allow investors to hedge against interest rate risk. Activities in the futures market will feed back into the over-the-counter cash market to generate new activity in the bonds deliverable into the futures contracts. This will facilitate the formation of a repo market for the underlying debt securities, which would promote wider use of bonds as collateral, and thus stimulate market liquidity.[10] A bond futures market can also enhance market transparency of the cash market, especially in the price discovery process.

III. Concluding Remarks

Some policy options suggested above have been under active consideration or are in the process of implementation by the relevant bodies. The HKMA will continue to work in collaboration with the relevant authorities and market participants to take the various proposals forward, with a view to further developing the local bond market.

10 Currently, there are repo transactions in Hong Kong using Exchange Fund paper as collateral, but these are bilateral trades executed between banks. A repo market is not in existence. The Hong Kong Association of Banks and the Hong Kong Foreign Exchange and Money Market Practices Committee have endorsed ISMA repo agreement for market participants' use in repo transactions. This will facilitate the development of a repo market in Hong Kong as one of the problem - the standardisation of agreement, is now solved.

Table 1

Current Tax Treatment for Debt Instruments in Hong Kong

Types of Instruments	Income Earned	Tax Treatment: Financial Institutions	Tax Treatment: Non-financial Institutions	Tax Treatment: Individuals**
Exchange Fund Paper, Tax Reserve Certificates and Bonds issued under the Loans Ordinance or the Loans (Government Bonds) Ordinance	• Trading profits • Interest income	• Exempt • Exempt	• Exempt • Exempt	• Exempt • Exempt
Hong Kong dollar paper issued by specified multilateral agencies	• Trading profits • Interest income	• Exempt • Exempt	• Exempt • Exempt	• Exempt • Exempt
Paper issued by specified SCGOCs*	• Trading profits • Interest income	• 50% concession (8%) • 50% concession (8%)	• 50% concession (8%) • 50% concession (8%)	• Exempt • Exempt
Paper issued by corporations and financial institutions (including floating rate notes, commercial papers and bonds) meeting the criteria on SCGOCs AND have at all relevant times a credit rating acceptable to HKMA (currently BBB - or above from S&P's)	• Trading profits • Interest income	• 50% concession (8%) • 50% concession (8%)	• 50% concession (8%) • 50% concession (8%)	• Exempt • Exempt
CDs issued by authorized institutions in Hong Kong	• Trading profits • Interest income	• 16% • 16%	• 16% • Exempt	• Exempt • Exempt
Corporate paper not eligible for exemption/concession	• Trading profits • Interest income	• 16% • 16%	• 16% • 16%	• Exempt • Exempt
Deposits with authorized institutions in Hong Kong	• Trading profits • Interest income	• N.A. • 16%	• N.A. • Exempt	• N.A. • Exempt

* *SCGOC refers to statutory corporations and government-owned corporations. The debt securities issued by the SCGOCs should fulfil the following criteria in order to qualify for a 50% tax concession:*

(i) cleared by and lodged with the CMU in its entirety;
(ii) an original maturity of at least 5 years;
(iii) a minimum denomination of HK$50,000 or its equivalent in a foreign currency;
(iv) issued to the public in Hong Kong.

** *Individuals are exempt from all interest and dividend income and profit tax. Only those who have filed a business registration will be liable to tax on the income. The general principle is an individual will not be double taxed if the corporation paying the dividends or interest is subject to profit tax. There is no capital gains tax in Hong Kong except on profits made on trading property.*