



Credit Guarantee &
Investment Facility

An Asian Bond Markets Initiative

CORPORATE BOND MARKET REPORT

HONG KONG, CHINA



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This paper is part of the ASEAN corporate bond market research under the Finance Department of CGIF. Led by Dong Woo Rhee, Chief Financial Officer, with assistance from Soleil Corpuz, Research Analyst, this research effort aims to show the characteristics of corporate bond markets in ASEAN. For any questions or comments on the contents of this report, please contact research@cgif-abmi.org.

Abbreviations

ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN plus the People's Republic of China, Japan, and Republic of Korea
CGIF	Credit Guarantee and Investment Facility
CD	certificate of deposit
CIS	collective investment schemes
CRA	credit rating agency
CMU	Central Moneymarkets Unit
ESG	environmental, social and governance
FVTOCI	fair value through other comprehensive income
FVTPL	fair value through profit or loss
GDP	gross domestic product
HIBOR	Hong Kong Interbank Offered Rate
HKEX	Hong Kong Exchanges and Clearing Market
HKMA	Hong Kong Monetary Authority
ILAS	investment-linked assurance scheme
LCY	local currency
MPFS	Mandatory Provident Fund Scheme
MPFSA	Mandatory Provident Fund Scheme Authority
REIT	real estate investment trust
SEHK	Stock Exchange of Hong Kong
SFC	Securities and Futures Commission

Currencies

CNH	offshore Chinese renminbi
CNY	Chinese yuan
EUR	Euro
HKD	Hong Kong dollar
JPY	Japanese yen
USD	US dollar

Executive Summary

1. Overview of the Corporate Bond Market of Hong Kong, China

- Hong Kong, China is an international financial market where major currencies can be used for bond issuance and is recognized as the primary market for dim sum bond issuance.
- The key segments in Hong Kong's bond market are classified into the following issuance currencies: Hong Kong dollar (HKD), offshore Chinese renminbi (CNH), and the G3 currencies, such as the United States dollar (USD), euro (EUR), and Japanese yen (JPY). Of these G3 currencies, USD is the most actively traded.

2. Specific Characteristics of the Corporate Bond Market of Hong Kong, China

- Among the members of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea (collectively known as ASEAN+3), Hong Kong, China has the fourth highest ratio of local currency (LCY) corporate bond market to GDP. On the other hand, the size of the LCY corporate bond market of Hong Kong, China is very small compared to its market capitalization. This is because of the nature of the financial market of Hong Kong, China being able to attract foreign players as well as its developed equities market.
- The LCY corporate bond market of Hong Kong, China is dominated by straight bonds. In terms of coupon type, the market is relatively split between fixed coupon and floating rate bonds.
- Due to the application of the global credit rating scale, the highest credit rating of an LCY corporate bond in the domestic market is AA because the government is rated AA by international rating agencies. Among the bonds rated by Moody's, the A rating is the most common, followed by the AA and BBB ratings.

3. Investors

- The corporate bond market of Hong Kong, China is dominated by institutional investors, composed of banks, mutual funds (which include provident funds), and insurance companies.
- These groups may have different requirements in terms of tenors, but they uphold strict credit rating standards, such that they gravitate towards investment-grade securities. Given this, it can be said that the corporate bond market of Hong Kong, China is an "investment grade market", such that both issuers and investors ensure high credit quality.

4. Other Market Participants

- Most of the issuers of HKD corporate bonds in Hong Kong, China are banks, capturing 58% of the outstanding market size in 2022. This is followed by the real estate companies, which hold 13% of the market. The utilities sector has 12%, while the travel and lodging industry has 6%.
- Key regulators in the corporate bond market of Hong Kong, China include the Securities and Futures Commission (SFC), the Hong Kong Monetary Authority (HKMA), and the Hong Kong Exchanges and Clearing Market (HKEX). These regulators ensure that the regulatory environment conform with the international standards.
- Unlike other markets, there are no domestic credit rating agencies in Hong Kong, China. The regulators recognize the credit ratings of international credit rating agencies in its market.

5. Guaranteed Corporate Bonds

- The corporate bond market of Hong Kong, China does not have a specialized credit guarantor for corporate bonds. Given the data available from Bloomberg, parent companies are the most significant credit guarantors to corporate bonds of issuers in the market.
- A longer maturity profile is observed from guaranteed corporate bonds, compared to the overall maturity profile of corporate bonds in Hong Kong, China. This indicates the possibility that issuers may need a guarantee when issuing long term bonds.

6. Cross Border Corporate Bonds

- Hong Kong, China is an established international financial center and a renowned business center for offshore renminbi (CNH) transactions. This establishes Hong Kong, China as a viable venue for cross-border corporate bonds. In fact, across ASEAN+3, Hong Kong, China has the highest ratio of inbound and outbound corporate bonds.
- The key industries of inbound HKD corporate bonds are banks, financial services, and real estate. These three industries take up 73.20% of the total inbound corporate bonds in 2022 and are also the same industries that are active in the onshore HKD corporate bond market.
- For outbound corporate bonds, Hong Kong-based corporate entities are active in issuing USD-denominated bonds, and a few CNY-denominated bonds. The outbound bonds are also listed in many international exchanges. Dim sum corporate bonds also follow the same trend of being listed in the local and other international exchanges.
- About 14.22% of the outstanding dim sum corporate bonds are guaranteed. The key guarantor group is of the parent companies. In fact, the Credit Guarantee and Investment Facility (CGIF) is a unique third-party guarantor in the dim sum corporate bond market. In March 2023, CGIF provided guarantees to the CNH500 million-bond of China Education Group with a 3-year tenor.

7. Future Direction

- Similar to other markets in ASEAN+3, Hong Kong, China is keen on further enhancing its environmental, social, and governance (ESG) bond market. The HKMA has the Center for Green and Sustainable Finance, which coordinates the efforts of financial regulators, government agencies, industry stakeholders, and the academe in capacity building and policy development initiatives that are related to ESG.
- Hong Kong, China also aims to be more connected with the bond market of the People's Republic of China (PRC). Two programs are initiated based on this objective: the Bond Connect and Swap Connect. As a more recent initiative, the Swap Connect initiative will include financial derivatives between Hong Kong, China and the PRC, such as interest rate swap markets.

1 Overview of the Corporate Bond Market of Hong Kong, China

1.1 General Characteristics

The bond market of Hong Kong, China is an international issuance market. Although having its own currency – the Hong Kong dollar (HKD) – for financial transactions, Hong Kong, China is known for welcoming offshore Chinese renminbi (CNH) products, such as the dim sum bonds.

According to the Hong Kong Monetary Authority (HKMA), the key segments in the bond market of Hong Kong, China are classified based on the issuance currency, such as the Hong Kong dollar (HKD), offshore renminbi (CNH), and the G3 currencies, i.e., the United States dollar (USD), euro (EUR), and Japanese yen (JPY).¹ It is important to note that USD is more actively traded compared with the other G3 currencies because HKD is pegged to the USD.²

As an international market, the bond market of Hong Kong, China is being further developed by the Steering Committee on Bond Market Development in Hong Kong.³ The steering committee has the following three approaches to promote bond market development, as enumerated in the points below.⁴

- Issuances of government debt instrument with varying diversity and maturity to stimulate growth in the bond market;
- Ensuring safe and efficient environment for trading and settlement, and connecting to major international bond markets through building market infrastructure; and
- Providing various support measures and incentives for market development.

1.2 Corporate Bond Market Size

Table 1.1 shows that the size of the local currency (LCY) corporate bond market of Hong Kong, China compared to the country's GDP is sizeable. In ASEAN+3, Hong Kong, China has the fourth highest ratio of LCY corporate bond market to GDP. On the other hand, the size of its LCY corporate bond market is very small compared to its market capitalization. Given the internationalized market of Hong Kong, China, one should not be hasty to generalize that its overall corporate bond market is small. This is possibly due to the prevalence of foreign currencies in the market, as some issuers may prefer issuing in other currencies than HKD. This also shows that Hong Kong, China has been an established equities market in ASEAN+3, where issuers can easily tap for funding. The market capitalization is the highest among the markets in ASEAN+3 aside from the People's Republic of China (PRC).

¹ Hong Kong Monetary Authority (HKMA). 2022. *The Hong Kong Bond Market in 2022*.

² As of time of writing, the range of the peg to USD1 is from HKD7.75 to HKD7.85.

³ The Steering Committee on Bond Market Development in Hong Kong (or, "Steering Committee") was established on August 2021, and is headed by the Financial Secretary of Hongkong, China. See Footnote 4 for detailed reference.

⁴ Report of the Steering Committee on Bond Market Development in Hong Kong. August 2022.

https://www.fstb.gov.hk/fsb/en/publication/report/docs/Report%20of%20the%20Steering%20Committee%20on%20Bond%20Market%20Development%20in%20Hong%20Kong_EN_2022_08.pdf

Table 1.1: Corporate Bond Market, Market Capitalization, and Gross Domestic Product of ASEAN+3, 2022

Country	LCY Corporate Bond Market (A)	Market Capitalization (B)	GDP (C)	A/B	A/C
PRC	6,338.1	17,542.79	10,138.33	36%	63%
Japan	748.16	4,243.34	5,456.78	18%	14%
Korea	1,349.58	1,552.61	1,604.65	87%	84%
Hong Kong, China	169.76	5,222.86	361.21	3%	47%
Cambodia	0.83	29.96	1.82	3%	46%
Indonesia	28.60	1,258.25	608.85	2%	5%
Malaysia	185.24	342.26	376.55	54%	49%
Philippines	28.77	395.21	231.03	7%	12%
Singapore	133.91	480.44	416.03	28%	32%
Thailand	128.71	501.87	586.19	26%	22%
Viet Nam	50.84	402.54	220.42	13%	23%

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, GDP = gross domestic product, LCY = local currency, PRC = The People's Republic of China.

Notes and Sources:

1. Values in USD billions.
2. Values for the LCY corporate bond market size and GDP as of December 2022 from Asian Bonds Online.
3. Values for the LCY corporate bond market of Viet Nam are from the Ministry of Finance Viet Nam.
4. Information on market capitalization as of end of December 2022 from Bloomberg.
5. Information on market capitalization of Cambodia from Cambodia Stock Exchange.

Compared with the LCY government bond market, the LCY corporate market of Hong Kong, China is significantly huge, because of the low issuance volume of LCY government bonds. Relative to the corporate loan market, the corporate bond market of Hong Kong, China is relatively sizeable, which means that corporate entities have sufficient access to the corporate bond market for financing.

Table 1.2: Corporate Bond Market, Government Bond Market, and Corporate Loan Market of ASEAN+3, 2022

Country	LCY Corporate Bond Market (A)	LCY Government Bond Market (B)	Corporate Loan Market (C)	A/B	A/C
PRC	6,338.1	12,122.45	19,838.07	52%	32%
Japan	748.16	9,372.08	2,808.43	8%	27%
Korea	1,349.58	907.04	1,333.21	149%	101%
Hong Kong, China	169.76	30.58	638.55	555%	27%
Cambodia	0.83	0.02	7.5	415%	11%
Indonesia	28.60	350.23	242.28	8%	12%
Malaysia	185.24	238.44	188.27	78%	98%
Philippines	28.77	163.53	183.80	18%	16%
Singapore	133.91	174.47	363.09	77%	37%
Thailand	128.71	253.37	381.69	51%	34%
Viet Nam	50.84	90.97	509.00	56%	10%

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, LCY = local currency, PRC = The People's Republic of China.

Notes and Sources:

1. Values are in USD billions.

2. For Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam: Asian Bonds Online for corporate bond market size and government bond market size (as of December 2022); Corporate loan market size (as of December 2022) from the central bank of each country.
3. For Cambodia: Cambodia Stock Exchange.
4. Brunei Darussalam, Lao PDR, and Myanmar are excluded from the list since there are no outstanding LCY corporate bonds in these countries.
5. The exchange rates used are as of end of December 2022, reported by Bloomberg.

2 Specific Characteristics of the Corporate Bond Market of Hong Kong, China

2.1 Issuance Methods

The issuance methods of corporate bonds in Hong Kong, China are basically for public offers and for professional investors. It is important to note that public offers should not include structured products.

2.2 Issue Size

Table 2.1 shows the issue sizes of outstanding HKD corporate bonds in the market. Hong Kong, China is similar to Thailand in terms of the average and maximum issue size. This suggests that the range of issue sizes of corporate bonds in Hong Kong, China is moderate.

Table 2.1: Comparison of Ranges of Issue Sizes of Corporate Bonds in ASEAN+3, 2022
(USD million)

Country	Average	Minimum	Maximum
PRC	188.54	0.58	9,422.50
Japan	135.74	0.23	4,194.63
Korea	49.48	< 0.01	1,019.42
Hong Kong, China	66.76	1.03	830.38
Cambodia	12.00	1.48	19.44
Indonesia	30.33	< 0.01	543.07
Malaysia	47.29	< 0.01	3,257.49
Philippines	122.66	1.79	945.44
Singapore	183.12	0.07	4,626.20
Thailand	62.67	0.14	866.85
Viet Nam	45.62	0.05	169.25

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China, USD = US dollar

Note: Exchange rates to USD1: CNY6.90, JPY131.12, KRW1,260.30, KHR 4,114, IDR15,573, MYR4.40, PHP55.74, SGD1.34, THB34.61, and VND23,633.

Sources: Bloomberg; Author's calculations.

2.3 Maturity Distribution

In terms of maturity distribution, most of the outstanding HKD-denominated corporate bonds have maturities of up to 3 years, which is the highest in ASEAN+3. The next highest range of tenor of bonds in Hong Kong, China is 5 to 10 years, taking up 15.73% of the market. This is followed by more than 10 years, with 9.13%.

Table 2.2: Comparison of Maturity Distribution of Corporate Bonds in ASEAN+3, 2021

	Up to 3 years	> 3 to 5 years	> 5 to 10 years	Over 10 years	Perpetual
PRC	52.08%	20.54%	15.26%	2.55%	9.57%
Japan	7.18%	23.49%	34.730%	29.28%	5.32%
Korea	50.13%	24.72%	16.06%	5.68%	3.40%
Hong Kong, China	70.60%	0.52%	15.73%	9.13%	4.01%
Cambodia	11.58%	62.31%	26.11%	-	-
Indonesia	41.37%	29.39%	25.96%	4.29%	-
Malaysia	8.43%	10.97%	39.31%	37.45%	3.85%
Philippines	22.10%	19.04%	54.38%	4.49%	-
Singapore	2.31%	17.19%	42.51%	15.05%	22.94%
Thailand	26.35%	27.45%	34.26%	9.69%	2.25%
Viet Nam	28.44%	24.39%	44.82%	2.34%	-

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China

Notes:

1. Data refers to original maturity.

2. Rows may not total 100% because of rounding.

Sources: Bloomberg; Author's calculations.

Table 2.3 shows that most of the short-term bonds are issued by banks and companies from the travel and lodging industry. This is especially true with a significant number of short-term certificates of deposits (CDs) being included in banks. While CDs are not considered as part of corporate bonds by market participants in Hong Kong, China, CDs are included in the data of this section to be consistent with the data of other countries. The real estate industry tends to issue long-term bonds as none have maturities of 3 years or less. In fact, the real estate industry has a very large amount of perpetual bonds.

Table 2.3: Maturity Distribution of HKD Corporate Bonds by Industry, 2022

Industry	Up to 3 years	> 3 to 5 Years	> 5 to 10 Years	> 10 Years	Perpetual
Banks	99.30%	-	0.70%	-	-
Real Estate	-	0.84%	55.81%	13.98%	29.37%
Utilities	-	20.96%	30.65%	48.39%	-
Travel and Lodging	90.72%	-	-	9.28%	-
Others	55.46%	3.57%	34.72%	6.24%	-
Total	70.60%	0.52%	15.73%	9.13%	4.01%

HKD = Hong Kong dollar

Note: Rows may not add up to 100% because of rounding.

Sources: Bloomberg; Author's calculations.

2.4 Maturity Type

About 90% of outstanding corporate bonds in Hong Kong, China have straight maturity type, which is similar to Korea, Viet Nam, and Indonesia. Aside from straight bonds, other maturity types are rare in Hong Kong, China except callable bonds, which occupy about 6%.

Table 2.4: Comparison of Maturity Type of Corporate Bonds in ASEAN+3, 2022

	Straight	Callable	Convertible	Sinkable	Puttable	Others
PRC	63.65%	15.67%	1.69%	2.70%	14.83%	1.46%
Japan	78.12%	13.29%	1.30%	0.49%	-	6.8%
Korea	90.15%	3.25%	0.42%	0.21%	0.21%	5.76%
Hong Kong, China	90.05%	5.94%	1.19%	-	-	2.82%
Cambodia	100.00%	-	-	-	-	-
Indonesia	96.91%	0.43%	2.48%	0.17%	-	-
Malaysia	84.91%	13.05%	0.64%	0.26%	-	1.14%
Philippines	36.81%	60.40%	-	-	-	2.79%
Singapore	59.87%	29.61%	1.66%	0.28%	-	8.58%
Thailand	83.17%	15.20%	0.09%	0.31%	1.06%	0.17%
Viet Nam	92.42%	6.36%	0.20%	1.02%	-	-

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China

Notes:

1. Rows may not total 100% because of rounding.
2. For Japan, Korea, Malaysia, Singapore, and Thailand, perpetual callable bonds are included in the callable category.
3. "Others" means maturity types with two features, such as callable/sinkable and callable/puttable.

Sources: Bloomberg; Author's calculations.

Of the key industries in the corporate bond market of Hong Kong, China, callable bonds are observed only from banks and the real estate industry. Callable bonds from real estate companies are all perpetual callable bonds, which are generally issued for capital increase because these bonds are accepted as equity and not as debt. Pure callable bonds with finite maturities are all issued by banks.

Table 2.5: Ratio of HKD Corporate Bonds by Industry and Maturity Type, 2022

Industry	Straight	Callable	Sinkable	Convertible	Others
Banks	92.11%	7.89%	-	-	-
Real Estate	70.63%	10.60%	-	-	18.77%
Utilities	100.00%	-	-	-	-
Travel and Lodging	100.00%	-	-	-	-
Others	87.16%	-	-	10.57%	2.27%
Total	90.05%	5.94%	-	1.19%	2.82%

HKD = Hong Kong dollar

Note: Rows may not add up to 100% because of rounding.

Sources: Bloomberg; Author's calculations.

2.5 Coupon Type

The corporate bond market of Hong Kong, China is generally distributed between fixed coupon and floating rate structures. Compared with other countries in ASEAN+3, the ratio of floating rate corporate bonds in Hong Kong, China are significantly higher. It has the second highest ratio in the region, next to Viet Nam.

Table 2.6: Comparison of Coupon Type of Corporate Bonds in ASEAN+3, 2022

	Fixed	Floating	Step-Up	Variable	Zero	Others
PRC	46.02%	0.07%	2.12%	26.54%	25.21%	0.04%
Japan	77.97%	0.57%	0.04%	19.49%	1.93%	-
Korea	89.71%	8.60%	0.12%	0.49%	1.07%	-
Hong Kong, China	51.44%	41.40%	0.81%	2.56%	3.78%	-
Cambodia	59.65%	40.35%	-	-	-	-
Indonesia	99.04%	-	0.26%	0.08%	0.62%	-
Malaysia	81.76%	6.05%	1.26%	2.47%	7.81%	0.64%
Philippines	97.62%	-	0.46%	1.77%	0.15%	-
Singapore	65.77%	-	0.96%	25.36%	7.90%	-
Thailand	94.31%	0.10%	1.03%	2.41%	2.15%	-
Viet Nam	36.52%	63.48%	-	-	-	-

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China

Notes:

1. Rows may not total 100% because of rounding.

2. "Others" include flat trading (Malaysia).

Sources: Bloomberg; Author's calculations.

Mostly issued by banks, floating rate bonds are generally structured as Hong Kong Interbank Offered Rate (HIBOR) plus spread. Bank-issued floating rate bonds have a tenor of less than 1 year. Variable coupons of real estate companies are related to their convertible perpetual callable bonds.

Table 2.7: Ratio of HKD Corporate Bonds by Industry and Coupon Type, 2022

Industry	Fixed	Floating	Step	Variable	Zero
Banks	23.42%	71.09%	-	-	5.50%
Real Estate	81.23%	-	-	18.77%	-
Utilities	100.00%	-	-	-	-
Travel and Lodging	83.39%	16.61%	-	-	-
Others	87.10%	-	7.16%	-	5.74%
Total	51.44%	41.40%	0.81%	2.56%	3.78%

HKD = Hong Kong dollar

Note: Rows may not add up to 100% because of rounding.

Sources: Bloomberg; Author's calculations.

2.6 Payment Rank

Most bonds across ASEAN+3 are unsecured bonds. The characteristic of the payment rank of the corporate bond market of Hong Kong, China is depicted as purely unsecured bonds.

Table 2.8: Comparison of Payment Rank of Corporate Bonds in ASEAN+3, 2022

	Secured	Unsecured	Subordinated
PRC	0.35%	87.76%	11.89%
Japan	18.41%	58.67%	22.93%
Korea	6.18%	83.91%	9.93%
Hong Kong, China	-	100.00%	-
Cambodia	-	100.00%	-
Indonesia	7.13%	88.78%	4.08%
Malaysia	26.41%	61.53%	12.06%
Philippines	-	96.38%	3.62%
Singapore	1.52%	71.37%	27.11%
Thailand	5.44%	88.13%	6.43%
Viet Nam	12.04%	87.96%	-

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China

Notes:

1. Rows may not total 100% because of rounding.
2. Secured bonds include first, second, and third liens.

Sources: Bloomberg; Author's calculations.

2.7 Credit Ratings

Table 2.9 shows the credit ratings distribution in ASEAN+3. Due to the application of the global credit rating scale, the highest credit rating of an LCY corporate bond in Hong Kong, China is AA because the sovereign rating of Hong Kong, China is AA by international rating agencies. Among the bonds that are rated by Moody's, the A rating is most common, followed by the AA and BBB ratings.

Table 2.9: Comparison of Credit Ratings of Outstanding Corporate Bonds Across ASEAN+3, 2022

Country	AAA	AA	A	BBB	Below BBB
PRC	88.95%	10.32%	0.19%	0.01%	0.52%
Japan	35.68%	56.08%	7.18%	0.70%	0.17%
Korea	1.75%	32.57%	61.24%	4.44%	0.00%
Hong Kong, China	-	15.07%	79.40%	5.52%	-
Cambodia	100%	-	-	-	-
Indonesia	43.13%	21.54%	31.11%	3.75%	0.46%
Malaysia	52.01%	39.22%	8.18%	0.27%	0.32%
Philippines	91.80%	7.25%	0.88%	0.00%	0.00%
Singapore	36.43%	8.55%	24.53%	30.49%	0.00%
Thailand	5.63%	15.16%	57.64%	21.00%	0.32%

ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, PRC = The People's Republic of China

Notes:

1. Credit rating distributions are based on the updated credit ratings of bonds as of end of 2022 instead of the issuance ratings.
 2. Bonds whose credit ratings are not available or withdrawn are excluded in calculating the percentages.
 3. The following domestic credit rating agencies are used for each market: PEFINDO for Indonesia, RAM for Malaysia, PhilRatings for the Philippines, Moody's for Singapore, TRIS Rating for Thailand, China Chengxin Credit Ratings Company for the PRC, Rating & Investment Information Inc. (R&I) for Japan, Korea Ratings Corporation for South Korea, and Moody's for Hong Kong, China. The table reflects the equivalent rating scales of each domestic credit rating agency. Short term ratings are excluded from the computation of the distribution of credit ratings.
 4. Cambodia and Viet Nam are excluded due to lack of rated corporate bonds in each of the markets.
- Sources: Bloomberg; Author's calculations.

In terms of the sector, only the real estate and utilities industries have corporate bonds that are rated below AA. In fact, 20.56% of the outstanding corporate bonds in the real estate industry are rated BBB.

Table 2.10: Ratio of HKD Corporate Bonds by Industry and Credit Ratings, 2022

Industry	AAA	AA	A	BBB	Below BBB
Banks	-	100.00%	-	-	-
Real Estate	-	-	79.44%	20.56%	-
Utilities	-	-	100.00%	-	-
Travel and Lodging	-	100.00%	-	-	-
Others	-	100.00%	-	-	-
Total	-	15.07%	79.40%	5.52%	-

HKD = Hong Kong dollar

Notes:

1. Rows may not sum up to 100% because of rounding.
 2. Ratings refer to the latest credit ratings of Moody's for each bond per sector.
- Sources: Bloomberg; Author's calculations.

The aforementioned information indicates that the HKD corporate bond market is an investment grade market. Securing credit ratings from credit rating agencies (CRAs) may arise from the mandate of the investors, which are dominated by professional and institutional investors.

3 Investors

In general, investors in the bond market of Hong Kong, China are mostly institutional investors, which are included in the professional investors.⁵ The HKMA noted that institutional investors dominate the overall bond market of Hong Kong, China. For instance, bonds can be listed in the Stock Exchange of Hong Kong (SEHK). As of end of 2021, there were 1,747 listed bonds in SEHK. However, retail investors can only access 61 of the listed bonds, which are mostly exchange fund notes of HKMA and government bonds that are issued by the Ministry of Finance of China. Unlisted bonds are rarely offered to retail investors.

There is no available breakdown of corporate bond holdings of different investor groups in Hong Kong, China. Banks would typically be the investors of money market or short-term instruments, particularly certificates of deposit.⁶ For this matter, banks would be more compelled to buy corporate bonds with shorter maturities, within the range of 2 to 5 years. Most of the investors of the HKD-denominated corporate bonds are from Hong Kong,

⁵ Professional investors in Hong Kong, China include institutional investors, individuals, and corporations that can reach the value of portfolio or asset requirements. Consent from eligible individuals and corporate entities is required for financial intermediary to recognize them as professional investors.

⁶ It is worth mentioning that in Hong Kong, China, CDs are not technically part of the corporate bond market of the country.

China. It is important to note that foreign investors can freely invest in the corporate bond market of Hong Kong, China, regardless of the issuance currency. However, foreign investors form only a small share in the HKD-denominated corporate bonds.

The corporate bond market of Hong Kong, China is also a professional investors market, such that bonds are typically sold to institutional investors and high net worth investors. The latter are those who primarily tap the corporate bond market through private banking. High net worth investors prefer shorter term bonds and can accommodate bonds that are slightly lower than the investment grade.

Table 3.1: Investment Appetite of Corporate Bonds from Different Investor Groups in Hong Kong, China

Investor Group	Tenor	Currency	Minimum Credit Ratings
Banks	Up to 5 years	HKD and USD	BBB-
Mutual Funds	1-10 years	HKD and USD	BBB-
Insurance Companies	7-15 years	HKD	BBB-
Retail Investors	1-3 years	HKD and USD	BB+

HKD = Hong Kong dollar, USD = United States dollar

Note: Credit ratings refer to those given by international CRAs.

Source: Market interviews, 2023.

Based on the general bond market structure, the key institutional investors in the corporate bond market of Hong Kong, China are banks, insurance companies, and the fund management companies. Fund management companies can be further classified as provident funds, which includes the Mandatory Provident Fund Scheme (MPFS), and mutual and unit trust funds. These two investor groups are discussed in the following sections.

3.1 Banks

Hong Kong, China maintains a three-tier system of deposit taking institutions composed of licensed banks, restricted licensed banks, and deposit-taking companies. As of October 2023, there are 156 licensed banks, 15 restricted license banks, and 12 deposit taking companies, constituting a total of 183 authorized institutions.⁷ In terms of total asset, HSBC is the biggest bank in Hong Kong, China with HKD10,324 billion, followed by Bank of China (Hong Kong) with HKD3,685 billion as of end of 2022. Table 3.2 and 3.3 show the credit rating distribution and maturity distribution of the financial investments of top two banks in Hong Kong, China. The ratios in these tables are in line with the market participants recognizing that banks generally invest in investment grade-corporate bonds with relatively short tenor.

Table 3.2: Credit Rating Distribution of HSBC and Bank of China (Hong Kong)

	A- and above	BBB+ and below	Unrated	Total
HSBC	92%	8%	0%	100%
Bank of China (Hong Kong)	91%	5%	4%	100%

Notes and Sources:

1. Ratios for HSBC are calculated based on the financial investments held at amortized cost and debt instruments measured at fair value through other comprehensive income (FVTOCI), as reported in its 2022 financial statement.

2. Ratios for Bank of China (Hong Kong) are calculated based on investments that are measured at FVTOCI, and amortized cost and fair value through profit and loss (FVTPL), as reported in its 2022 financial statement.

⁷ HKMA. 2023. <https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/the-three-tier-banking-system/>

Table 3.3: Maturity Distribution of HSBC and Bank of China (Hong Kong)

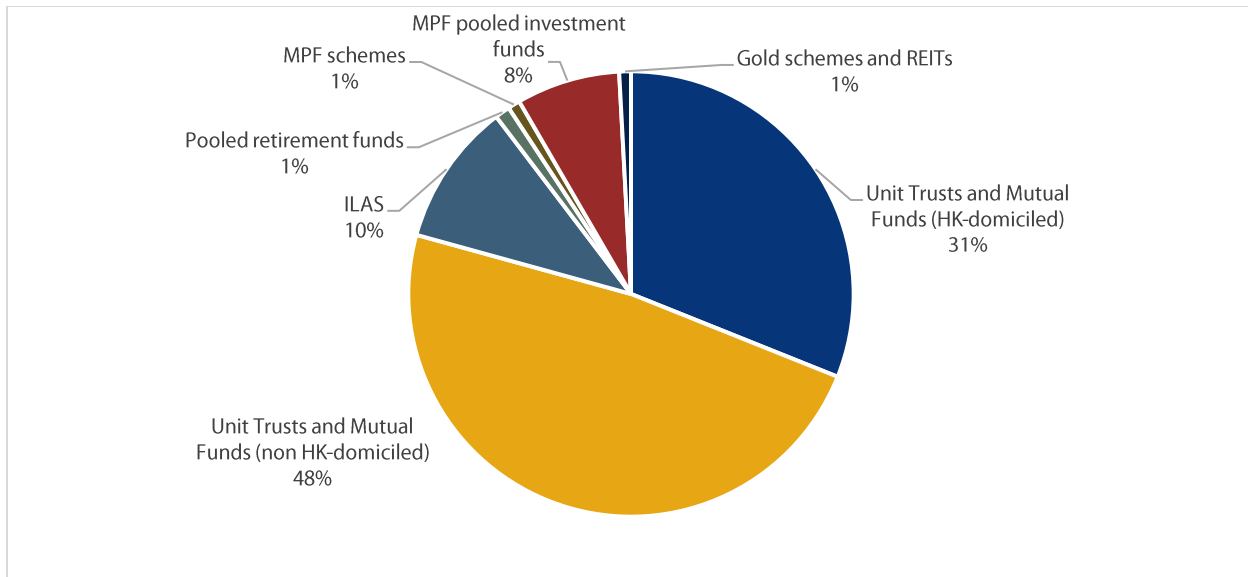
	Up to 1 year	1 to 5 years	Over 5 years	Total
HSBC	50%	27%	23%	100%
Bank of China (Hong Kong)	53%	34%	13%	100%

Notes and Sources:

1. Financial investments in the 2022 financial statements were used for the ratios of HSBC, and investment securities in its 2022 financial statements were used for Bank of China (Hong Kong).
2. For the financial investments of HSBC, trading assets are included for up to 1 year, and assets with no contractual maturity, such as equity securities, are included for over 5 years.

3.2 Mutual Funds and Unit Trust Funds

As of March 2023, the Securities and Futures Commission of Hong Kong (SFC) has authorized a total of 2,939 collective investment schemes (CIS).⁸ These CIS include unit trust and mutual funds, investment-linked assurance schemes, pooled retirement funds, MPF schemes, MPF pooled investment funds, gold schemes and real estate investment funds. Figure 3.1 shows the distribution of CIS in Hong Kong, China based on the number of funds/schemes. Unit trusts and mutual funds that are incorporated comprised the majority of the market.

Figure 3.1: Collective Investment Schemes in Hong Kong, China

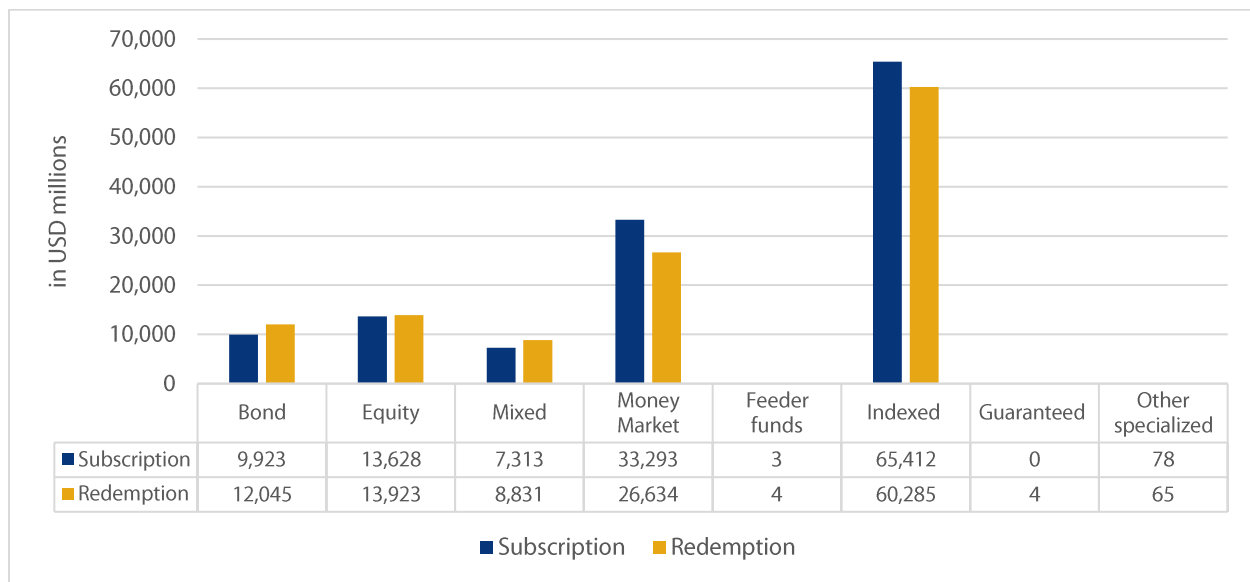
ILAS = investment-linked assurance schemes, MPF = mandatory provident fund, REIT = real estate investment trust.

Source: SFC.

The SFC reported the fund flows of authorized unit trusts and mutual funds that are domiciled in Hong Kong, China. In the fiscal year ending 31 March 2023, index funds have the highest amount of flow.

⁸ Securities and Futures Commission (SFC). 2023. *Annual Report 2022-2023*. https://www.sfc.hk/-/media/EN/files/COM/Annual-Report/2022-23/SFC-Annual-Report-2022-23_Eng.pdf?rev=b5b1057167b446cb9e0feb78e1140d78

Figure 3.2: Mutual Funds and Unit Trust Funds in Hong Kong, China, as of 31 March 2023



Source: SFC.

The SFC Handbook for Unit Trusts and Mutual Funds, ILAS, and Unlisted Structured Investment Products noted the allowable investments for unit trusts and mutual funds. The core investment requirements are summarized in Table 3.4.

Table 3.4: Allowable Investments for Unit Trusts and Mutual Funds in Hong Kong, China

Exposure to any single entity through investment in its securities and its financial derivatives	Up to 10% of total net asset value
Exposure to entities within the same group through investment in securities and financial derivatives	Up to 20% of total net asset value
Unlisted or unquoted securities on any market*	Up to 15% of total net asset value
Government and other public securities of the same issue	Up to 30% of total net asset value
Government and other public securities in at least six different issues	Up to 100% of total net asset value
Physical commodities	Not allowed
Investments in other CIS that are non-eligible schemes and not authorized by the SFC	Up to 10% of total net asset value
Feeder Funds	90% or more
Real estate (excluding REITs)	Not allowed

*Per the Handbook, "market" means stock exchange, over-the-counter market, or other organized securities market that is open to the international public and on which such securities are regularly traded.

Source: SFC.

3.3 Provident Funds

The Mandatory Provident Funds Scheme Authority (MPFSA) of Hong Kong, China implements the MPFS, which is the mandatory provident fund system.⁹ In 1995, the Mandatory Provident Funds Ordinance was enacted, which requires all employed individuals ages 18 to 64 to become members of the provident fund system.¹⁰ Under the MPFS, employers can choose single or multiple registered MPFS to invest for the retirement of their employees, depending on the investment suitability of their employees.

The MPFSA provided a detailed guideline on the allowable debt securities investments of registered MPFS.¹¹ The guidelines provided three conditions for investments in debt securities, which are:

- Issued by “exempt authorities”. These are governments, central or reserve banks of countries or territories, or multilateral agencies with the highest possible credit rating determined by an approved CRA of the MPFSA;
- Fully and unconditionally guaranteed by exempt authorities;¹² and
- Met the minimum credit rating requirement of the MPFSA.

Related to this, the MPFSA recognizes the following five CRAs for debt securities investments: China Chengxin (Asia Pacific) Credit Ratings Company Limited, Fitch Ratings, Moody’s Investors Service, Rating & Investment Information, Inc., and Standard & Poor’s Corporation. Table 3.5 shows the minimum credit rating requirements for each of the approved credit rating agency.

Table 3.5: Minimum Credit Rating Requirements for Investments of Provident Funds

Credit Rating Agency	Long Term Debt	Short Term Debt
China Chengxin (Asia Pacific) Credit Ratings Company	BBBg-	Ag-2
Fitch Ratings	BBB-	F2
Moody’s Investors Service	Baa3	Prime-2
Rating & Investment Information, Inc.	BBB	a-2
Standard & Poor’s Corporation	BBB-	A-2

Note: Long term debt refers to debt securities with maturities of 1 year or more. Short term debt refers to debt securities with maturities of less than one year.

Source: MPFSA.

3.4 Insurance Companies

As of September 2022, there are 164 authorized insurers in Hong Kong, China, which are composed of 90 general insurance, 53 long term insurance, 19 composite, and 2 special purpose. Although the number of general insurance companies is larger than that of long term or life insurance companies, as shown in Table 3.6, the top 11 insurance companies in terms of total asset size in 2021 are all life insurers, where AIA International is the biggest insurance company with HKD126 billion, followed by Manulife international (HKD91 billion), Prudential (HK) Life (HKD87 billion), and China Life (HKD62 billion).

⁹ The MPFSA regulates the activities of the registered provident fund schemes in Hong Kong. In fact, the entire MPFS system of the country relies on private management of retirement funds.

¹⁰ The MPFS lays out the exemptions for the individual contributors.

¹¹ MPFSA. *Guidelines on Debt Securities*. https://www.mpfa.org.hk/en/-/media/files/information-centre/legislation-and-regulations/guidelines/current-version/part-iii/iii-1/iii_1.pdf

¹² This indicates that all interest payments and principal payments are guaranteed.

Table 3.6: Top 15 Insurance Companies in Hong Kong, China

2022 Ranking	Insurance Company	Classification	Total Assets in 2021 (HKD)
1	AIA International	Long term or life business	129 billion
2	Manulife (Int'l)	Long term or life business	91 billion
3	Prudential (HK) Life	Long term or life business	87 billion
4	China Life	Long term or life business	62 billion
5	HSBC Life	Long term or life business	56 billion
6	FWD Life (Bermuda)	Long term or life business	47 billion
7	BOC Life	Long term or life business	37 billion
8	AXA China (Bermuda)	Long term or life business	34 billion
9	TPLHK	Long term or life business	23 billion
10	Hang Seng Insurance	Long term or life business	21 billion
11	Sun Life Hong Kong	Long term or life business	19 billion
12	BOC group insurance	General business	18 billion
13	FTLife	Long term or life business	14 billion
14	YF Life	Long term or life business	9 billion
15	Bupa	General business	6 billion

Source: Insuranceasia.com whose original source is indicated as Insurance Authority of Hong Kong, China.

Table 3.7 shows that the number of policies sold for non-linked is more than 10 times of that of linked, indicating that non-linked business dominates the insurance market in Hong Kong, China. Non-linked refers to traditional insurance, and linked refers to a combination of insurance and investment that can be equity, corporate bonds, or other assets. According to Insurance Authority of Hong Kong, China, whole life and endowment together occupies 87% of non-linked business in terms of in-force premium in Hong Kong, China. Insurance companies are required to invest in safe long-term bonds when they sell traditional policies as they generally guarantee fixed returns and have long duration.

Table 3.7: Number of Policies of Non-linked and Linked Insurance in Hong Kong, China

	2020	2021	2022
Non-linked	12,465,536	12,716,300	12,822,506
Linked	1,213,448	1,222,818	1,206,722

Source: Insurance Authority Hong Kong.

Given the fact that life insurance companies dominate the insurance market in Hong Kong, China especially with their traditional business, it is understandable that market participants observe that these insurance companies prefer long-term and high-grade bonds for their corporate bond investment. Having said that, the investments made by insurance companies in Hong Kong, China do not strictly consider the nature of their local businesses because the insurance companies are often the regional headquarters of global insurance companies, which also cover other countries in Asia.

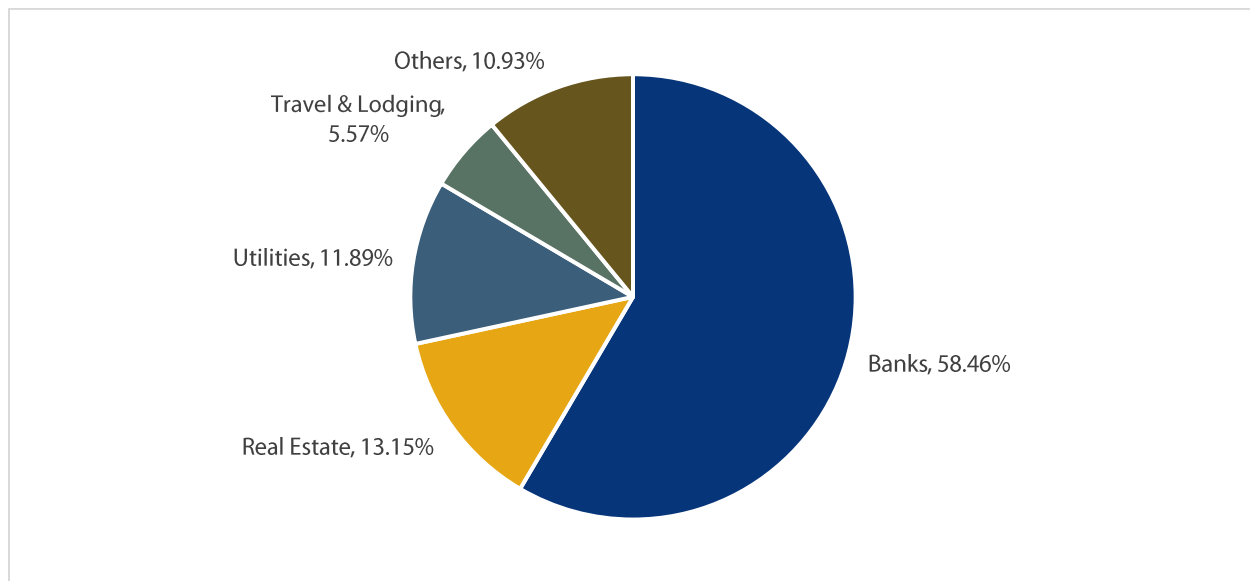
4 Other Market Participants

4.1 Issuers

Most of the issuers of local currency (LCY) corporate bonds in Hong Kong, China are banks, capturing 58% of the outstanding market size. This is followed by real estate companies with 13% of the market. Utilities industry took up 12% of the market, while travel and lodging industry comprised 6%. It is important to note that issuers in the corporate bond market of Hong Kong, China are recognized as the established names in their respective industries

among investors. In addition, issuers with investment grade are more visible in the corporate bond market of Hong Kong, China.

Figure 4.1: Issuers of LCY Corporate Bonds in Hong Kong, China



LCY = local currency

Source: Bloomberg; Author's calculations.

It is important to note that there is only a limited number of local issuers in the LCY corporate bond market. For instance, the travel and lodging and utilities industries have one issuer each, based on the data of outstanding LCY corporate bonds as of end of 2022. This trend is also reflected in other industries, such as the airlines, commercial finance, communications equipment, life insurance, power generation, and property and casualty insurance (Table 4.1).

Table 4.1: Hong Kong-based Issuers of HKD-denominated Corporate Bonds, as of 2022

Industry	Number of Issuers	Number of Bonds	Average Issuance Size (HKD millions)	Share to Total Value of Outstanding HKD Corporate Bonds of Hong Kong-based Corporate Entities (2022)
Airlines	1	3	296.00	0.55%
Banks	9	160	592.39	58.46%
Commercial Finance	1	1	775.00	0.48%
Communications Equipment	1	1	600.00	0.37%
Financial Services	2	2	373.92	0.07%
Food and Beverage	1	12	2,933.33	2.77%
Life Insurance	1	3	400.00	5.43%
Power Generation	1	1	400.00	0.25%
Property and Casualty Insurance	1	1	451.55	0.25%
Real Estate	9	45	377.87	13.15%
Travel and Lodging	1	20	631.25	5.57%
Utilities	1	51	296.00	11.89%
Waste & Environment Services & Equipment	1	2	592.39	0.78%

HKD = Hong Kong dollar

Note: Percentages may not add to 100% due to rounding off.

Source: Bloomberg; Author's calculations.

Being in an international financial market, issuers in Hong Kong, China have the option to issue bonds in USD, such that they can take advantage of the currency peg between HKD and USD. However, the decision to issue in USD depends on the financial market conditions.

4.2 Regulators

Securities and Futures Commission

Established in 1989, the Securities and Futures Commission (SFC) is the regulatory body for the securities and futures market of Hong Kong, China. The SFC supervises and regulates securities exchange markets such as the SEHK and the Hong Kong Futures Exchange (HKFE). For bond market participants, the SFC supervises and regulates the required documents for bond issuance and offering.

Hong Kong Monetary Authority

As the central bank of Hong Kong, China, the key role of the Hong Kong Monetary Authority (HKMA) is to maintain the monetary and banking stability of Hong Kong, China. Under this mandate, one function of the HKMA is to help maintain the status of Hong Kong, China as an international financial center, which includes the maintenance and development of the infrastructure for financial services and transactions.

The HKMA operates the Central Moneymarkets Unit (CMU), which provides clearing, settlement, and depository services for debt securities denominated in HKD and other major currencies which are used in the financial market of Hong Kong, China. Since its establishment in 1990, the CMU has supported the growth of financial infrastructure in Hong Kong, China and eventually helped in maintaining the status of Hong Kong, China as a regional payment and settlements hub for funds and securities.¹³ As will be discussed later, the CMU also provides information on bond prices in Hong Kong, China.

Hong Kong Exchanges and Clearing Market

The Hong Kong Exchanges and Clearing Market (HKEX) is the operator of exchanges and clearinghouses based in Hong Kong, China. HKEX is also among the largest exchange groups globally in terms of market capitalization. HKEX operates the securities and derivatives markets and their related clearinghouses and is the key regulator of listed companies in Hong Kong, China. Its wholly-owned subsidiaries include SEHK and HKFE.¹⁴

HKEX regulates listed issuers and administers listing, trading, and clearing rules in Hong Kong, China.

4.3 Bond Pricing Agency

Although there is no bond pricing agency in Hong Kong, China, related agencies of HKMA and SFC can provide information on bond prices and trading. The CMU of HKMA provides bond price bulletin, the data of which is sourced from banks who agree to provide information on bond prices. A sample of the bond price bulletin is shown in Figure 4.2.

¹³ The Central Moneymarkets Unit. *About Us*. <https://www.cmu.org.hk/en/about-cmu>

¹⁴ ADB. 2016. *Bond Market Guide Hong Kong*.

Figure 4.2: Central Moneymarkets Unit of the Hong Kong Monetary Authority

Price Provider	CCY	Issuer	Coupon (%)	Maturity Date (yyyy/mm/dd)	Bid Price	Offer Price	Bid Yield (%)	Offer Yield (%)	Last Update (yyyy/mm/dd)	Details
HSHK	HKD	HK EXCHANGE FUND	4.55	2024-11-25	100.45	100.55	4.21	4.11	2023-09-07	More
HSHK	HKD	HK EXCHANGE FUND	3.98	2025-08-25	99.88	99.98	4.09	4.02	2023-09-07	More
HSHK	HKD	HK EXCHANGE FUND	1.51	2027-02-24	92.55	92.75	3.87	3.79	2023-09-07	More
HSHK	HKD	HK EXCHANGE FUND	2.49	2028-08-22	94.17	94.47	3.83	3.75	2023-09-07	More
HSHK	HKD	HK EXCHANGE FUND	2.24	2029-08-27	91.46	92.06	3.9	3.77	2023-09-07	More
CBHK	HKD	HK EXCHANGE FUND	2.07	2026-08-26	94.24	95.84	4.2	3.6	2023-09-11	More
CBHK	HKD	HK EXCHANGE FUND	2.48	2029-02-28	92.96	94.56	3.96	3.62	2023-09-11	More

Source: CMU. (<https://www.cmu.org.hk/en/bond-price-bulletin>)

In addition to this, HKEX also provides price data on debt securities that are listed in SEHK. The data can be filtered according to the bond type – whether issued to professional investors or publicly issued. Important data are also provided, such as yield to maturities of each listed corporate bond. Figure 4.3 shows a sample of information which can be found in HKEX website.

Figure 4.3: Hong Kong Exchange and Clearing Market

Latest Market Data

CNH Gold Futures – Spot Price Index1,695.01410.0000 (0.00%)

USD Gold Futures – Spot Price Index1,587.68990.0000 (0.00%)

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TYPE

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DEBT SECURITIES Overview

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ETPs

DWs

INLINE WARRANTS

CBBCs

REITs

DEBT SECURITIES

Stock Code	Name	Nominal Price	Turnover (HK\$)	Trading Currency	Amount Outstanding	Coupon (%)	Yield to Maturity (%)	Maturity
4006	EFN 2.39 2508	0.000 (0.00%)	-	HKD	HK\$600.00M	2.39000%	4.11%	20 A
4012	EFN 3.32 2602	0.000 (0.00%)	-	HKD	HK\$600.00M	3.32000%	4.03%	25 F
4018	EFN 2.07 2608	0.000 (0.00%)	-	HKD	HK\$600.00M	2.07000%	3.96%	26 A
4024	EFN 1.51 2702	0.000 (0.00%)	-	HKD	HK\$600.00M	1.51000%	3.88%	24 F

Source: HKEX. (https://www.hkex.com.hk/Market-Data/Securities-Prices/Debt-Securities?sc_lang=en)

4.4 Credit Rating Agency

There are no local credit rating agencies (CRAs) in Hong Kong, China. Since it is an international market, regulators acknowledge the credit ratings that are provided by international CRAs on bonds and their issuers. Some of the international CRAs known in Hong Kong, China include Moody's, S&P, and Fitch. In addition, a number of Chinese

CRA have offices or subsidiaries in Hong Kong, China, such as China Chengxin (Asia Pacific) Credit Rating Co., Ltd. and Lianhe Global.

Of these aforementioned CRAs, it is more common to see ratings from the international CRAs, such as Moody's, S&P, and Fitch, in the corporate bond market of Hong Kong, China. Nevertheless, some Chinese investors may prefer ratings from Chinese CRAs who also have offices in Hong Kong, China.

5 Pricing and Credit Spreads

Hong Kong, China does not have its own bond pricing agency, which shows the daily yields corresponding to a specific credit rating and tenor. Instead, it is available to calculate the credit spreads of the corporate bonds when these are issued by calculating the difference between the coupon rate of the corporate bond and government bond yield with the same tenor at the issuance date. Table 5.1 shows the average credit spreads corresponding to credit ratings that are available for this analysis. Only corporate bonds with maturities of 10 years or below and rated by Moody's are included.

Spread results are in line with the perception that the spread gets higher as credit rating goes down. Although the average spread of A2 is higher than that of A3, which is counterintuitive, it is because the data that is used to calculate the average spread includes the bonds with different tenors and different issue times, not because the average spread of A2 issuers is structurally higher than that of A3 issuers in Hong Kong, China.

Table 5.1: Average Credit Spread of Rated HKD-denominated Corporate Bonds by Moody's Rating

Credit Rating	Aa3	A1	A2	A3	Baa2
Number of Bonds	7	17	23	10	3
Average Spread	0.55%	0.97%	1.46%	1.43%	2.07%

Sources: Bloomberg; Author's calculations.

6 Guaranteed Corporate Bonds

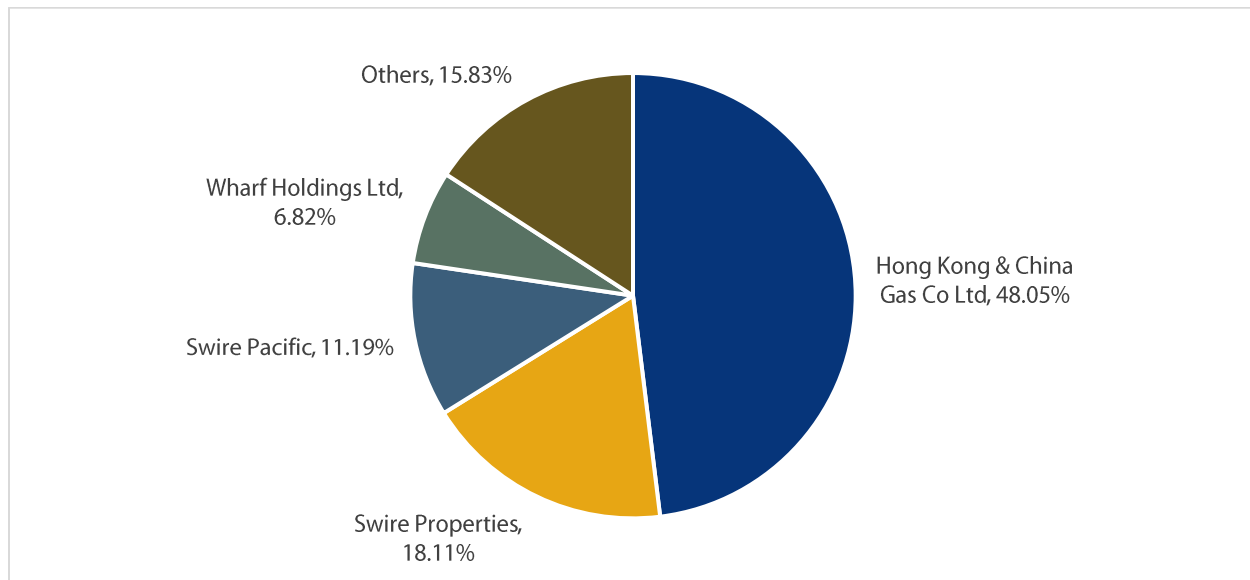
No specialized credit guarantor for corporate bonds is present in Hong Kong, China. Based on the data available from Bloomberg, only parent companies provide credit guarantees to corporate bonds of issuers. This observation is aligned with the finding of ADB that guarantors are usually parent companies of issuers in cases where the credit rating or financial situation of the issuer is challenging for an unassisted bond issuance.¹⁵

As of December 2022, a total of HKD40.2 billion LCY corporate bonds were guaranteed by the parent companies in the corporate bond market of Hong Kong, China. Figure 6.1 shows the key parent company guarantors in the market. As part of the utilities industry, Hong Kong & China Gas Co. Ltd. guaranteed 51 outstanding bonds of HKCG Finance Ltd. by end of 2022. Under the real estate industry, Swire Properties guaranteed 23 bonds of Swire Properties MTN Financing Ltd. Under the real estate industry, Swire Pacific guaranteed 12 bonds of Swire Pacific MTN Financing HK Ltd.¹⁶

¹⁵ ADB. 2016. *ASEAN+3 Bond Market Guide 2016: Hong Kong, China*. <https://www.adb.org/publications/asean3-bond-market-guide-2016-hong-kong-china>

¹⁶ Source of data is Bloomberg.

Figure 6.1: Parent Companies as Guarantors of HKD-denominated Corporate Bonds, 2022



Sources: Bloomberg; Author's calculations.

As shown in Table 6.1, longer maturity profile is observed from guaranteed corporate bonds than all corporate bonds in Hong Kong, China. It is not only because short-term CDs, which are included in all corporate bonds, are not included in the guaranteed bonds, but also because one of the reasons why issuers pursue guaranteed bonds is that they want to issue longer bonds, which may not be possible without guarantee.

Table 6.1: Maturity Distribution of Guaranteed Corporate Bonds Versus All HKD-denominated Corporate Bonds in Hong Kong, China

	Up to 3 years	> 3 to 5 years	> 5 to 10 years	Over 10 years
Guaranteed bonds	13%	1%	55%	31%
All bonds	70%	1%	16%	13%

Sources: Bloomberg; Author's calculation.

7 Cross-border Corporate Bonds

The HKMA asserted that Hong Kong, China is an established international financial center and a renowned business center for CNH transactions.¹⁷ Since 2004, Hong Kong, China is active in promoting renminbi services, such as trade settlement, financing and asset management. Table 7.1 elaborates these offshore renminbi financial services.

¹⁷ HKMA. 2016. *Hong Kong The Global Offshore Renminbi Business Hub*. <https://www.hkma.gov.hk/media/eng/doc/key-functions/monetary-stability/rmb-business-in-hong-kong/hkma-rmb-booklet.pdf>

Table 7.1: Offshore Renminbi Financial Services in Hong Kong, China

Renminbi retail and corporate banking	Deposits Currency Exchange Checks Debit and credit cards Remittances Trade financing and other kinds of loans and advances Wealth management products Treasury management products
Renminbi capital markets	Debt origination Investment funds (for onshore and offshore markets) Real estate investment trust Exchange-traded fund Equity financing Trading of listed shares in Shanghai
Renminbi money and foreign exchange market	Spot FX Deliverable forwards and futures FX options and swaps Non-deliverable forwards Cross-currency swaps Interest rate swaps
Renminbi insurance	Insurance plans and products

FX = foreign exchange

Source: HKMA. 2016.

Cross-border corporate bonds are active in Hong Kong, China since this has been the established issuance venue of offshore renminbi bonds. In fact, the first offshore renminbi bond, which is the dim sum bond, was issued in Hong Kong, China in 2007.¹⁸ Table 7.2 shows the high ratios of cross-border corporate bonds in Hong Kong, China, which indicates its position as an international financial center.¹⁹

Table 7.2: Cross-border Corporate Bonds in ASEAN+3, 2022

Country	Ratio of LCY corporate bonds issued by foreign entities to total LCY corporate bonds		Ratio of offshore bonds issued by local entities to total bonds issued by local entities (Outbound Ratio)
	Including bonds settled in major currencies	Excluding bonds settled in major currencies (Inbound Ratio)	
	[A]	[B]	
PRC	1%	0%	3%
Hong Kong, China	84%	84%	88%
Japan	17%	17%	36%
Korea	0.1%	0%	13%
Indonesia	28%	< 1%	70%
Malaysia	1%	1%	15%
Philippines	3%	0.3%	37%
Singapore	25%	25%	69%
Thailand	1%	1%	16%

¹⁸ HKMA. *Hong Kong The Global Offshore Renminbi Business Hub*. 2016. <https://www.hkma.gov.hk/media/eng/doc/key-functions/monetary-stability/rmb-business-in-hong-kong/hkma-rmb-booklet.pdf>

¹⁹ Cross-border corporate bonds are bonds that are issued in offshore markets. These bonds may be issued in foreign currencies.

Viet Nam	4%	0%	28%
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ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and Republic of Korea, LCY = local currency, PRC = The People's Republic of China.

Notes:

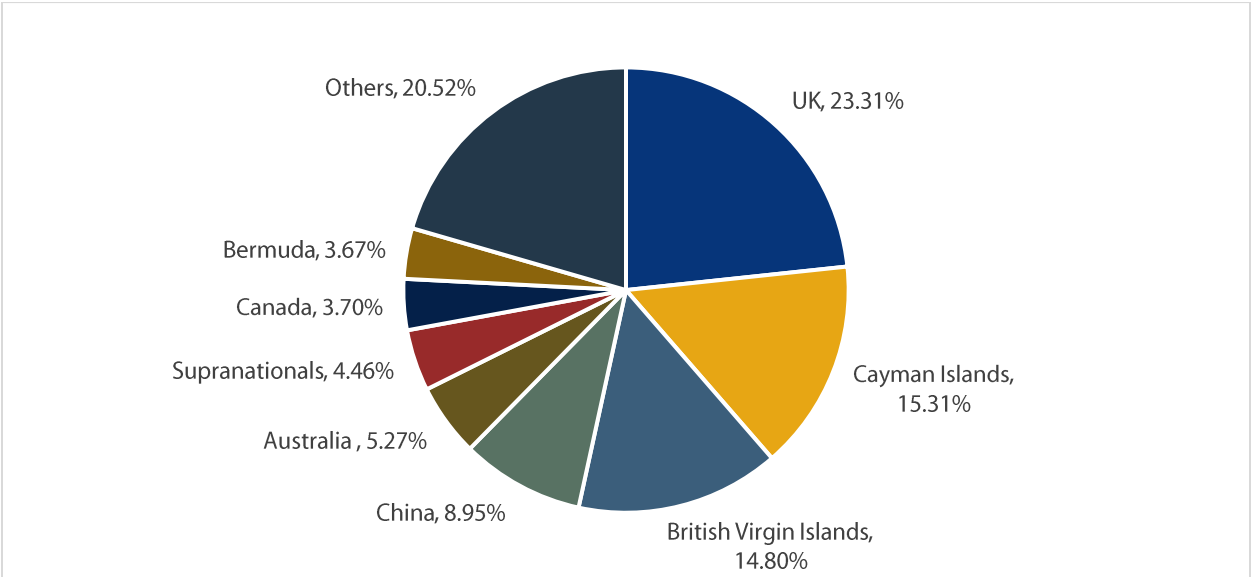
1. Offshore bonds include foreign currency bonds and offshore LCY bonds.
2. Major currencies include USD, EUR, and JPY.

Sources: Bloomberg; Author's calculations.

7.1 Inbound Corporate Bonds

Foreign companies are active issuers of HKD-denominated bonds. As of end of 2022, Hong Kong-based companies have 302 outstanding corporate bonds compared with the 1,640 outstanding corporate bonds of foreign companies. The diversity of the nationalities of the HKD-denominated bond issuers are shown in Figure 7.1. Except for Hong Kong-based companies, the top issuers of HKD-denominated bonds are from the United Kingdom. It is notable that many issuers are offshore vehicles or companies that are incorporated in the Cayman Islands, British Virgin Islands, and Bermuda.²⁰

Figure 7.1: Issuers of Outstanding HKD-denominated Corporate Bonds by Country of Incorporation (except Hong Kong, China), 2022



Sources: Bloomberg; Author's calculations.

The key industries of inbound HKD corporate bonds are banks, financial services, and real estate. These three industries take up 73.20% of the total inbound corporate bonds, which are also the same industries that are active in the onshore HKD corporate bond market. The two notable issuers are presented in Table 7.3. One issuer had 50 outstanding HKD corporate bonds, which indicates a smaller issuance size. The other issuer only had six

²⁰ These places are known as international financial centers that can offer lower to zero tax rates. One report noted that Asian companies often consider setting up offshore companies in Cayman Islands or British Virgin Islands. For more information, see Carey Olsen's report "Choosing your offshore listing vehicle - key factors to consider", <https://www.careyolsen.com/sites/default/files/co-bvi-cay-hk-sing-ls-alb-star-market-choosing-offshore-listing-vehicle-1-21-v2.pdf>

outstanding HKD corporate bonds, indicating a large amount of issuance size. This information shows that Hong Kong, China can accommodate a wide range of bond size to fulfill the funding needs of foreign issuers.

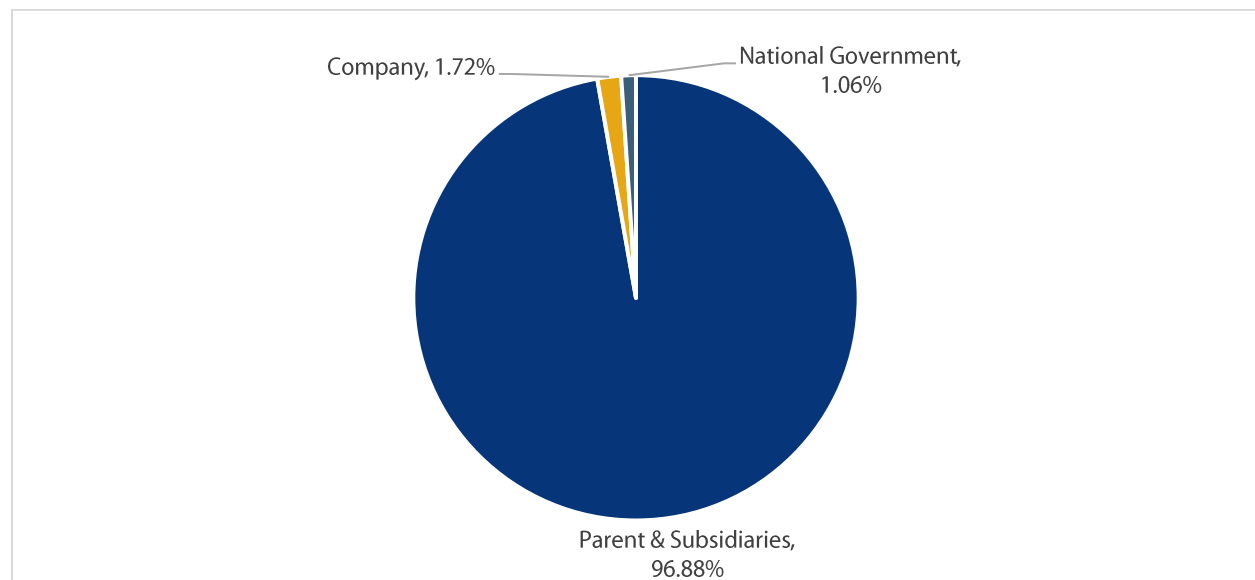
Table 7.3: Notable Issuers of Inbound Corporate Bonds in Hong Kong, China

Issuer Name	Country of Incorporation	Total Amount of Outstanding Bonds (Number)	Share to Total Inbound Bonds
Nomura Bank International Plc.	UK	HKD175.44 billion (6)	19.76%
Sun Hung Kai Properties Capital Market Ltd.	Cayman Islands	HKD19.81 billion (50)	2.33%

Sources: Bloomberg; Author's calculations.

By the end of 2022, about 31% of the outstanding inbound corporate bonds are guaranteed. Another similarity with the onshore HKD corporate bond market is that parent companies and subsidiaries are the most common guarantors, taking up about 96% of guaranteed inbound corporate bonds in Hong Kong, China (Figure 7.2).

Figure 7.2: Guarantors of Inbound Corporate Bonds in Hong Kong, China



Source: Bloomberg; Author's calculations.

7.2 Outbound Corporate Bonds

Hong Kong-based corporate entities are active issuers of USD-denominated bonds, and to a lesser extent, CNY-denominated bonds. As shown in Table 7.4, 85.51% of outbound bonds are denominated in USD while another 9.03% are denominated in CNY.

Table 7.4: Currencies of Outbound Corporate Bonds

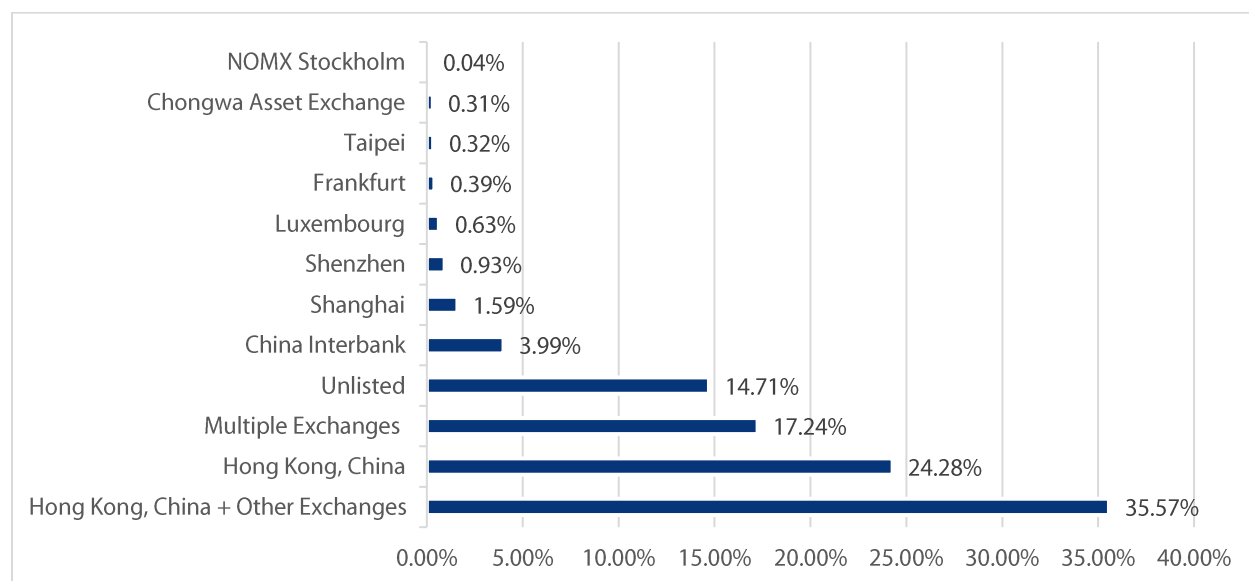
Currency	AUD	CNY	EUR	IDR	JPY	NZD	SEK	SGD	USD
Share to Outbound Bonds	0.86%	9.03%	2.63%	0.02%	0.81%	0.16%	0.04%	0.94%	85.51%

AUD = Australian dollar, CNY = Chinese yuan, EUR = euro, IDR = Indonesian rupiah, JPY = Japanese yen, NZD = New Zealand dollar, SEK = Swedish Krona, SGD = Singaporean dollar, USD = United States dollar

Sources: Bloomberg; Author's calculations.

Outbound bonds are also listed in many international exchanges. Figure 7.3 shows the distribution of the outbound bonds based on the venue of listing. About 60% of the outbound bonds are listed in Hong Kong, China being an internationally recognized financial center, wherein foreign investors can also access the market. Hong Kong-based corporate entities are also versed in tapping other Chinese markets, such as the China Inter-bank Market, Shanghai Stock Exchange, and Shenzhen Stock Exchange.

Figure 7.3: Listing of Outbound Corporate Bonds, as of 2022



Notes:

1. "Multiple Exchanges" means a bond is listed in more than one exchange, excluding Hong Kong, China.

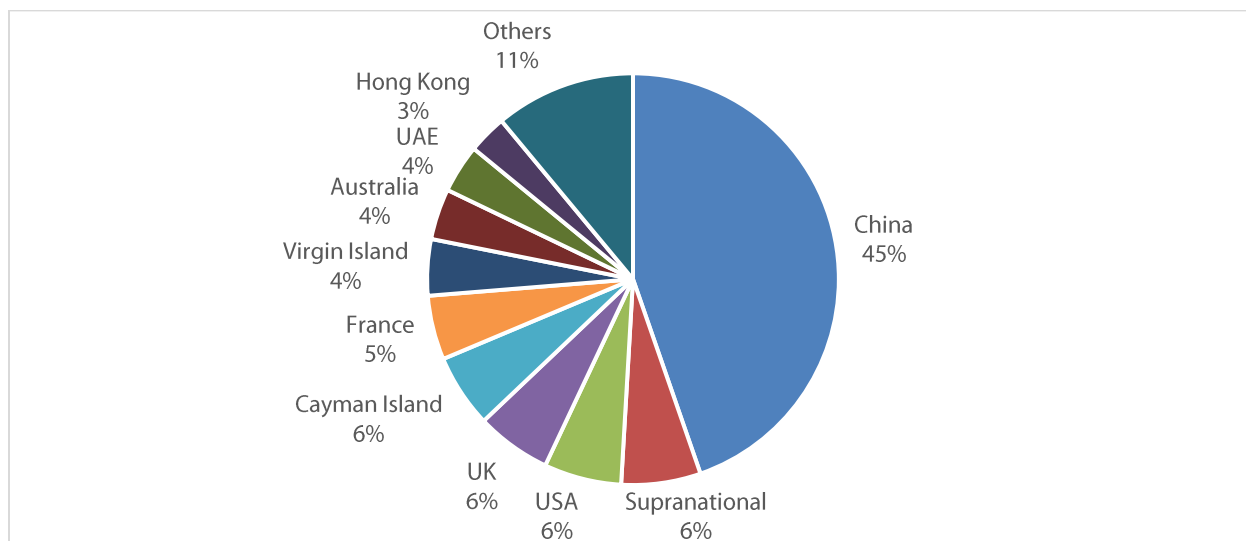
2. "Hong Kong, China + Other Exchanges" means a bond is listed in more than one exchange, including Hong Kong, China.

Sources: Bloomberg; Author's calculations.

7.3 Dim Sum Corporate Bonds²¹

About 45% of the outstanding dim sum corporate bonds are issued by corporate entities from the PRC, making them the key issuer group of these types of bonds. Companies from other countries are also issuing dim sum corporate bonds, as illustrated in Figure 7.4.

Figure 7.4: Issuers of Dim Sum Corporate Bonds by Country of Incorporation, 2022



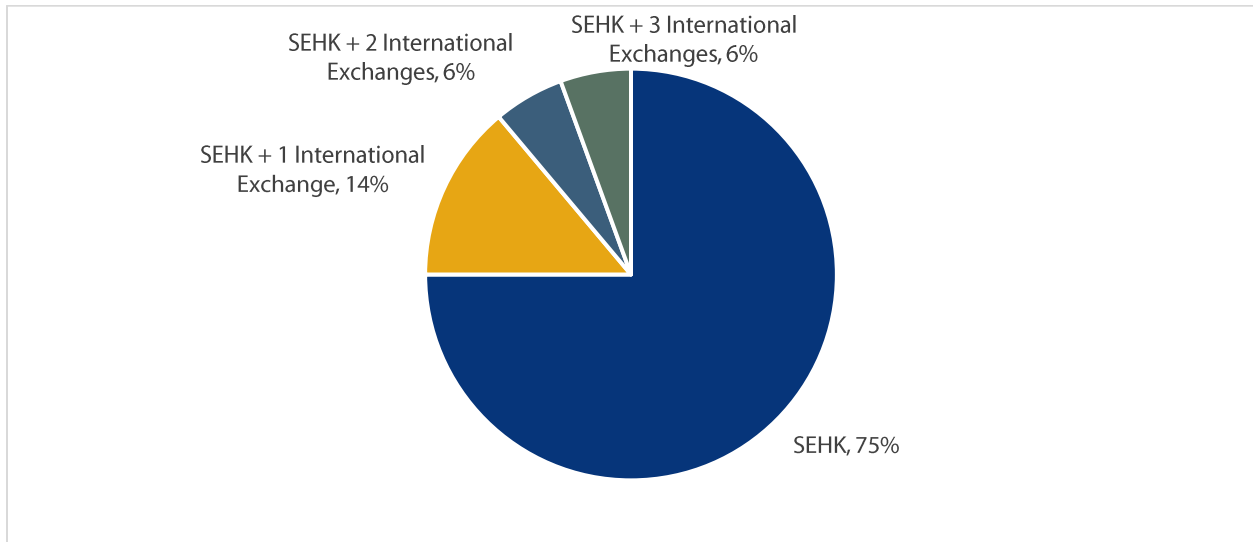
Sources: Bloomberg; Author's calculations.

Based on the data from Bloomberg, about 2,612 dim sum corporate bonds are outstanding on 31 December 2022, which amounts to USD97.35 billion. About 32% of these bonds are listed at least in one exchange and 68% are unlisted.²² All listed dim sum bonds are listed in SEHK. Out of this number, 25% are listed not only in SEHK but also in other international exchanges, such as the Singapore Exchange, Frankfurt Stock Exchange, London Stock Exchange, and Chongwa Asset Exchange (Figure 7.5).

²¹ Dim sum corporate bonds are also introduced and discussed in detail in the market research paper of CGIF, "The Corporate Bond Market of the People's Republic of China Research 2023".

²² An important caveat must be emphasized here. Since these bonds are unlisted, it is undetermined where these dim sum corporate bonds are offered (market of issuance).

Figure 7.5: Distribution of Listed Dim Sum Corporate Bonds According to the Venue of Exchange

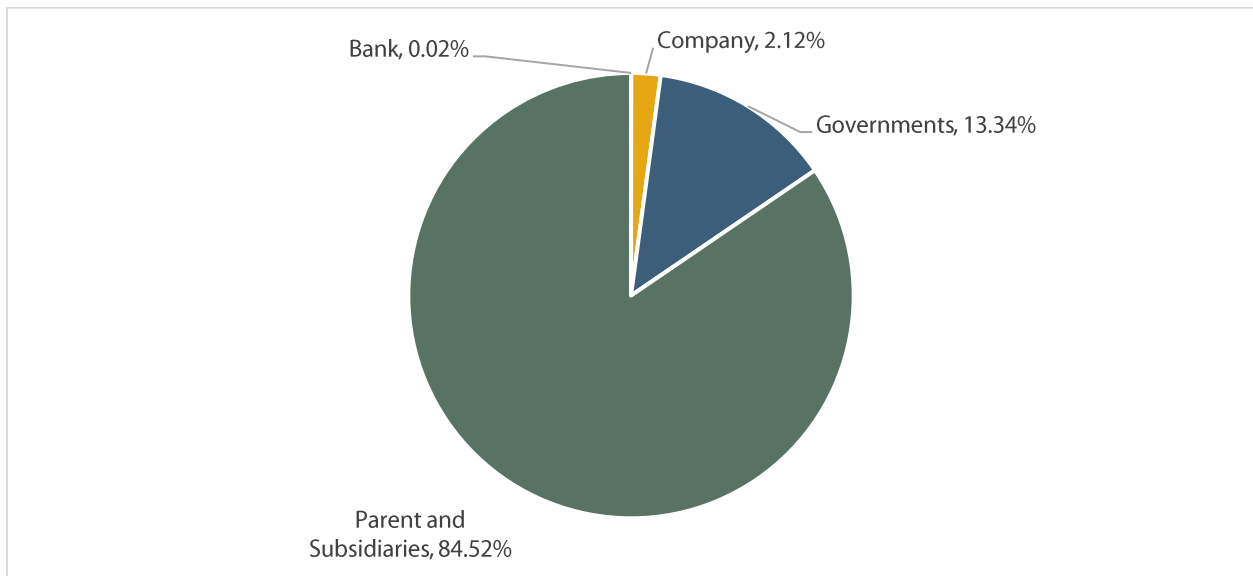


Note: For this chart, calculations are based on the number of outstanding dim sum corporate bonds, as of December 2022.
Sources: Bloomberg; Author's calculations.

7.4 Guaranteed Dim Sum Corporate Bonds

About 14.22% of the outstanding dim sum corporate bonds are guaranteed. The key guarantor group is the parent company, taking up 84.52% of the guaranteed dim sum corporate bonds, followed by governments (Figure 7.6).

Figure 7.6: Guarantors of Dim Sum Corporate Bonds



Sources: Bloomberg; Author's calculations.

Only the Credit Guarantee and Investment Facility (CGIF) is the unique third-party guarantor in the dim sum corporate bond market. In March 2023, CGIF provided guarantees to the CNH500 million-bond of China Education Group with a 3-year tenor.

8 Future Direction

ESG or Thematic Bonds

Hong Kong, China is keen on promoting ESG (environmental, social and governance) principles in its bond market. HKMA has the Center for Green and Sustainable Finance, which coordinates the efforts of financial regulators, government agencies, industry stakeholders, and the academe in capacity building and policy development that are related to ESG. The Government of the Hong Kong Special Administrative Region of the People's Republic of China is an active issuer of green bonds in the market, which serves as an example to other market participants to consider ESG in their bond issuances and investments. As a result, the "Government Green Bond Program" is launched as an initiative to promote the development of green finance, especially the green bond market. Proceeds that are raised under the program would be used for financing government projects with environmental benefits.

One of the recent developments is the issuance of a thematic cross-border bond by a Hong Kong-based company, Swire Properties. In July 2023, Swire Properties issued a green dim sum public bond, making it the first Hong Kong-based company to do so.²³ The bond has a total of CNH3.2 billion, wherein CNH2.5 billion has a coupon rate of 3.30% with maturity of 2 years, and the remaining CNH700 million has a coupon rate of 3.55% with a tenor of 5 years. The proceeds are intended to fund or refinance the existing or new eligible green projects of the company. Earlier this year, Swire Properties issued five green dim sum bonds worth CNH1.92 billion under a private placement.

Market Connectivity to the People's Republic of China (PRC)

Bond Connect Company Limited ("Bond Connect") is established to promote mutual market access between the financial markets of Hong Kong, China and the ORC. Established in Hong Kong, China in 2017, BCCL provides the following services:

- Admission and registration of Northbound investors (or the offshore investors accessing the Mainland China market);
- Liaison closely with the Recognized Access Platforms through which international investors can trade instruments on the China Interbank Bond Market;
- Provision of data services;
- Provision of investor education activities in relation to Bond Connect. On the primary market front, BCCL facilitates dissemination of Chinese primary bond market information, supports NCD primary subscription, and offers a one-stop electronic solution for bond issuance through its ePrime system.

One recent development is the Swap Connect initiative. Announced in July 2022, Swap Connect will include financial derivatives between Hong Kong, China and the PRC, such as interest rate swap markets. This will create synergy with Bond Connect to facilitate management of interest rate risks of global investors for their bond investment on the PRC. It will also strengthen the status of Hong Kong, China as a risk management center.

²³ Swire Properties. 2023. *Swire Properties First Hong Kong Company to Issue "Green Dim Sum" Renminbi Public Bonds*. https://www.swireproperties.com/en/media/press-releases/2023/20230719_green-dim-sum-bond/

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