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Hong Kong Monetary Authority Launches Digital Bond Grant Scheme

The Hong Kong Monetary Authority (**HKMA**) launched the Hong Kong Digital Bond Grant Scheme on 28 November 2024 to promote the development of Hong Kong's digital securities market. To incentivise issuers and financial institutions to issue digital bonds, the HKMA will offer grants of up to a maximum of HK\$2.5 million to reimburse expenses incurred on eligible bond issues in Hong Kong. Details of the Hong Kong Digital Bond Grant Scheme, including the eligibility requirements, reimbursable expenses and application process, are set out in the HKMA's Guideline on the Digital Bond Grant Scheme. The scheme started accepting applications on 28 November 2024 and will continue for three years, unless extended. Applications can be made for digital bonds issued on or after 16 October 2024.

Grants Available for Hong Kong Digital Bond Issues

The Hong Kong Digital Bond Grant Scheme provides financial support for digital bond issues covering up to 50% of the issuer's eligible expenses. Digital bond issuers can apply for two levels of grant:

- up to HK\$1.25 million (Half Grant) if they meet specified basic requirements (Basic Requirements); or
- up to HK\$2.5 million (**Full Grant**) if they meet the Basic Requirements and specified additional requirements (**Additional Requirements**).

Whether a bond qualifies as a digital bond will be determined by the HKMA on a case-by-case basis. Generally speaking, however, the term "digital bond" means a bond that leverages distributed ledger technology (**DLT**) to digitally represent ownership, such as legal title and/or beneficial ownership.

An issuer and its associates can receive grants for a maximum of two digital bond issues under the scheme. The term "associates" includes: (i) a person or corporation over which the issuer has control; (ii) a person or corporation which has control over the issuer; and (iii) a person or corporation under the control of the same person or corporation as the issuer, excluding persons or corporations which are associated only because of common ownership by a central government, sovereign wealth fund or similar state-owned enterprises and operate independently as separate commercial entities in practice.

Eligibility Requirements for Hong Kong Digital Bond Issues

Basic Requirements

To qualify for a grant under the Hong Kong Digital Bond Grant Scheme, the digital bond must:

- (i) be issued in Hong Kong, i.e. at least half of the lead arranger(s) must be recognised arrangers; and
- (ii) meet one of the following conditions:
 - (a) the team involved in the development and/or operations of the DLT platform and other aspects of the digital bond issue (digital team) must have a substantial Hong Kong presence; or
 - (b) be issued on a DLT platform operated by the Central Moneymarkets Unit (CMU).

"Recognised arrangers" are arrangers with substantial Hong Kong debt capital market operations. The Hong Kong Digital Bond Grant Scheme and the <u>Green and Sustainable Finance Grant Scheme</u> share the same list of recognised arrangers.

The "digital team" may include (without limitation) roles in project or business management, information technology, engineering, operations, legal and compliance, issuer services, securities services, etc. Whether a digital team has a substantial presence in Hong Kong will be determined on a case-by-case basis, taking into consideration factors such as the size and composition (including the seniority) of the Hong Kong team and other factors that demonstrate the DLT platform's Hong Kong nexus.

Additional Requirements

To qualify for a Full Grant, the digital bond must additionally:

- (i) be issued on a DLT platform provided by an entity that is not an associate of the bond issuer;
- (ii) have a minimum issue size of HK\$1 billion or its equivalent (including all tranches);
- (iii) be issued initially to a minimum of five investors that are not associates of the issuer or the DLT platform provider(s); and
- (iv) be listed on the Stock Exchange of Hong Kong Limited (the **HKEX**) or one or more virtual asset trading platforms licensed by the Hong Kong Securities and Futures Commission (the **SFC**).

Eligible Expenses under the Hong Kong Digital Bond Grant Scheme

The following expenses incurred by the issuer of an eligible digital bond issue qualify for reimbursement:

- (i) fees paid to DLT platform providers that are not associates of the issuer;
- (ii) fees paid to Hong Kong-based arrangers that are not associates of the issuer;
- (iii) fees paid to Hong Kong-based legal advisers;
- (iv) fees paid to Hong Kong-based auditors, accountants and rating agencies;
- (v) listing fees paid to the HKEX or virtual asset trading platforms licensed by the SFC; and
- (vi) CMU lodging and clearing fees.

Expenses are not reimbursable under the scheme if they are covered under other grant schemes either in or outside Hong Kong. If a digital bond is also a green, social, sustainability, sustainability-linked or transition bond, subject to meeting the eligibility requirements under the applicable grant schemes:

(i) the eligible general bond issue costs can be covered by either the Hong Kong Digital Bond Grant Scheme

- or Track 1 of the Green and Sustainable Finance Grant Scheme, up to HK\$2.5 million, but not both; and
- (ii) the external sustainability review costs can be covered by Track 2 of the Green and Sustainable Finance Grant Scheme, up to HK\$800,000 for all pre-issue and post-issue external reviews combined.

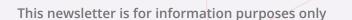
How to Apply for the Hong Kong Digital Bond Grant Scheme

Optional Pre-Application Consultation

Before submitting a formal application, the issuer, lead arranger(s) and/or the DLT platform provider(s) can initiate a pre-application consultation with the HKMA via dbgs@hkma.gov.hk either before or after the digital bond issue. If satisfied that the eligibility criteria are met, based on the preliminary information provided, the HKMA will issue a no-objection.

Formal Application

A formal application can be made by the issuer, lead arranger(s) and/or the DLT platform provider(s) within three months after the issue of the digital bond. The application form for the Hong Kong Digital Bond Grant Scheme can be obtained from the HKMA via dbgs@hkma.gov.hk.



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