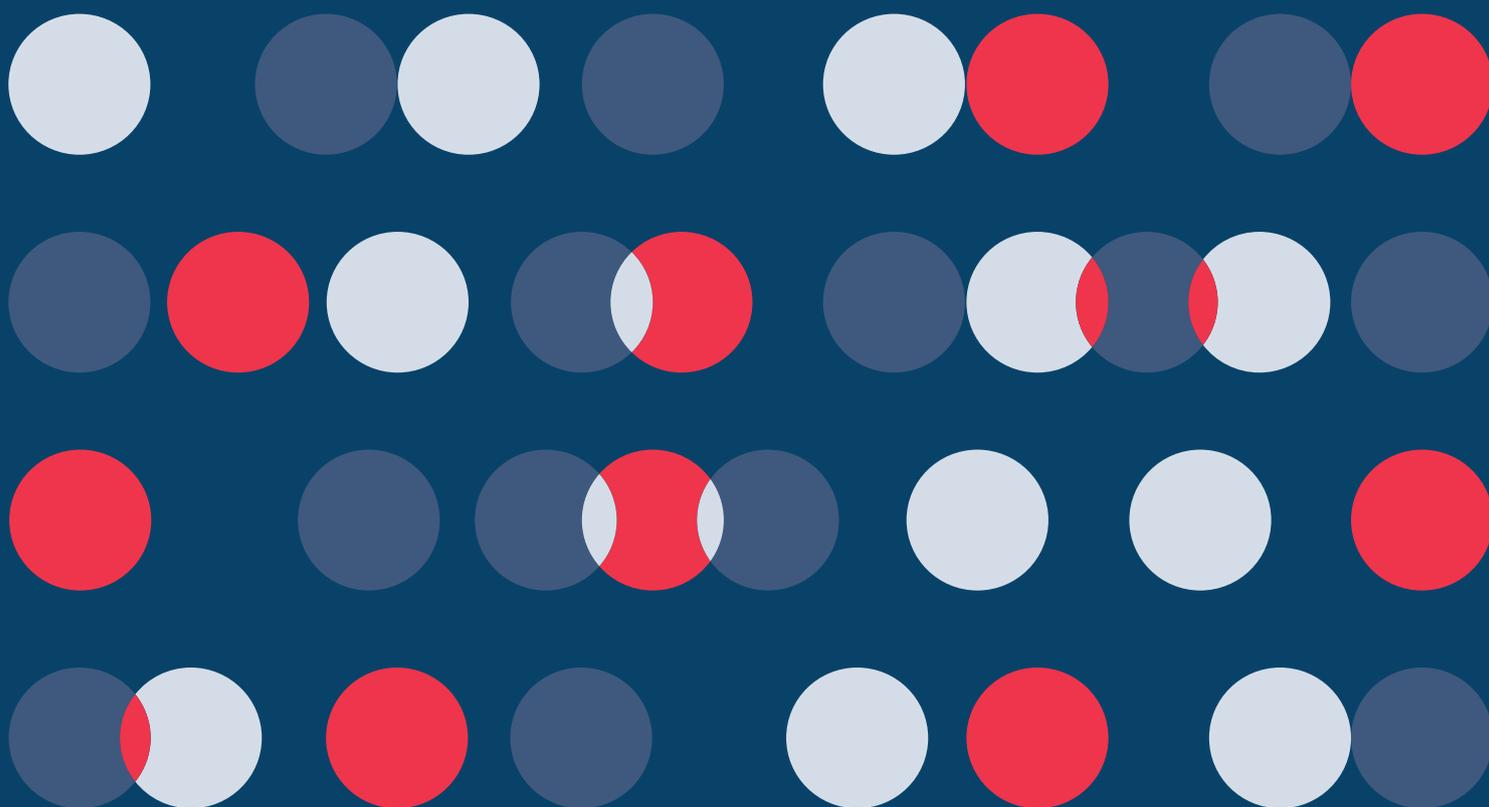


February 2020

RESEARCH REPORT

RETAIL BOND OFFERING ON
THE EXCHANGE MARKET



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SUMMARY

Bond issuance has been prevalent in corporate financing activities in recent years. Retail bond issuance serves as an alternative source of financing for companies looking to access a broader funding stream. From investors' perspective, it also provides a channel to address the demand from public investors for greater access to fixed-income products.

As a result of the continuous growth of Hong Kong's bond market and its high degree of availability to global issuers and investors, particularly for access to bonds denominated in multiple currencies, more governmental or corporate entities may be attracted to retail bond issuance in Hong Kong, so as to build up a wider investor base. One example is the recent offering of bonds issued by Agricultural Development Bank of China, one of China's state-owned corporations with sovereign rating, conducted through the exchange's securities settlement system — Central Clearing and Settlement System — to public investors.

To provide market participants with a better understanding of retail bond offering in Hong Kong, this paper gives a detailed introduction of the retail bond offering approaches in Hong Kong, including the issuing channels, the listing requirements and the post-trade settlement process.

1. THE ISSUANCE OF RETAIL BONDS

1.1 Why issue retail bonds?

Retail bond issuance can serve as an alternative source of financing for companies looking to access a broader funding stream. It can also address the demand from public investors for greater access to fixed-income products.

From investors' perspective, the interest in issuing retail bonds by corporates is supported by public investors who are seeking alternatives to savings products and equities, during the prolonged period of historically low interest rates around the globe.

Retail investors are seeking opportunities to invest for a better yield than they could find in standard savings accounts or equity products. The traditional ways for public investors to access the bond market include investment in bond-related funds or exchange traded funds (ETFs) based upon bond underlyings, or through banks to access the so-called "Over-The-Counter" (OTC) bond market. However, all of these methods may involve high trading cost due to large pricing spread and commissions charged by agent banks. In contrast, listed retail bonds allow retail investors to directly buy/sell bonds on exchanges which operate a publicly traded market with better transparency, therefore reducing the cost of accessing fixed-income assets.

From issuers' perspective, retail bonds open up new sources of financing and provide alternative funding options for issuers rather than bank loans and private equity financing.

Bond issuance has been a popular way for companies to raise funds, particularly at a time when capital-starved banks do not readily lend to businesses. In general, bonds are mostly issued in the OTC market and their pricing structures are largely determined by institutional investors. Due to the bargaining power of institutional investors, bond issuers may need to offer more attractive yields to these investors and therefore pay a higher funding cost. If bond issuers could expand the investor base, especially to retail investors who have a reduced demand for yield compared to institutional investors and who have less investment channels, bond issuers could attract cheaper funding sources with financing instruments of the same credit risk.

From a marketing perspective, the issuance of retail bonds may serve the company's marketing strategy aiming at cementing clients. Issuing retail bonds may be an opportunity to increase the company's profile exposed to the public rather than an equity listing which is a much more expensive way to interact with the clients. If the retail bonds are issued through stock exchanges along with a suitable marketing campaign, the issuer can effectively and extensively reach the public, and thereby improve its market reputation and recognition.

1.2 Retail bond issuance and trading systems across major financial markets

(1) The UK: Electronic Order book (ORB)

The London Stock Exchange (LSE) launched ORB in February 2010 to open up the debt market to public investors. Since then, the UK listed retail bond market has grown from an outstanding amount of £100 million in 2010 to more than £2 billion for 170 bonds at the end of 2012. Although it encountered a downturn since 2015, over 150 retail bonds are now active¹, including bonds issued by supranational entities, commercial banks and corporates.

¹ Source: The LSE's website, as of 25 November 2019.

(2) Italy: MOT

The MOT market was launched by the LSE Group in its Italian market in 1994. The objectives are to provide public investors with access to the bond market and to enhance the efficiency of professional investor operations by offering an electronic and completely automated trading system. As the only Italian-regulated market, it offers the trading service for bonds issued by Italian and foreign governments, domestic and international banks, corporates, supranationals, and asset-backed securities (ABS).

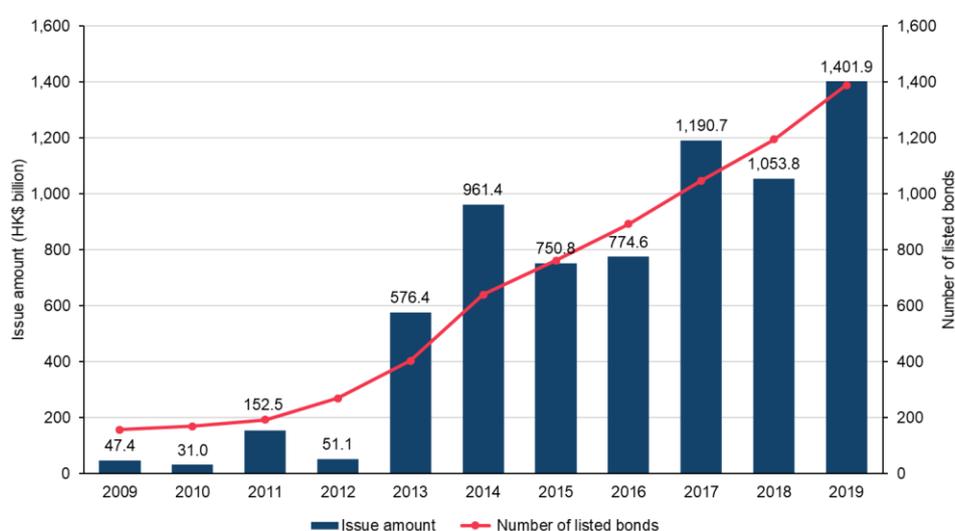
(3) Singapore: Singapore Exchange (SGX)

SGX operates a retail bond market for retail investors. Currently around 13 retail bonds are traded on the SGX², which can be bought and sold in “board lots” or a minimum trade size of 1,000 units. National entities and stated-owned corporates are active issuers.

1.3 Bonds listed in Hong Kong and open to public investors

The Hong Kong bond market, on- and off-exchange inclusive, has grown gradually in recent years. In Hong Kong, as an international financial centre, the bond market is open to a high degree to global issuers and investors, and can meet the funding needs of corporates for large-sized issuance. Given the bond investment mandates for mutual funds and unit trusts, issuers may choose to list their bonds on exchanges in order to make them eligible for investment by these institutional investors³. Since 2010, the issue amount of bonds listed on the securities market of Hong Kong Exchanges and Clearing Limited (HKEX) operated by its wholly-owned subsidiary, The Stock Exchange of Hong Kong Limited (SEHK), has grown rapidly (see Figure 1), attributable to the increasing bond issuance denominated in US dollar (USD), particularly by Mainland issuers. Currently, listed bonds in Hong Kong are issued by a wide range of global and Mainland issuers, including corporates, state entities⁴ and supranationals, and bonds can be issued in multiple currencies.

Figure 1. Total issue amount and total number of listed bonds in Hong Kong (2008 – 2019)



Source: World Federation of Exchanges (WFE)'s statistics.

² Source: Singapore Exchange website, as of 25 November 2019.

³ Source: *ASEAN+3 Bond Market Guide 2016 – Hong Kong, China*, published on the Asian Development Bank's website, November 2016.

⁴ “State” include any agency, authority, central bank, department, ministry of, or of the government of, a state or any regional or local authority.

There were 1,388 bonds listed on SEHK as of the end of 2019⁵, the majority of which are only available to professional investors. Given the continuous growth of Hong Kong's bond market and its high degree of availability to global issuers and investors for access to bonds denominated in multiple currencies, more governmental or corporate entities may intend to tap into retail bond issuance in Hong Kong so as to build up a wider investor base. A recent case is the offering of bonds issued by Agricultural Development Bank of China, one of China's state-owned corporations with sovereign rating, conducted through SEHK's securities settlement system, the Central Clearing and Settlement System ("CCASS"), to public investors⁶.

The following sections introduce the retail bond issuance approaches in Hong Kong, including the issuing channels, the listing requirements and the post-trade settlement process.

2. PUBLIC BOND ISSUANCE APPROACHES IN HONG KONG

In Hong Kong, bonds may be issued to the public by different approaches, as set out below.

2.1 Bonds issued to public investors only

Steps involved in issuance (see Figure 2):

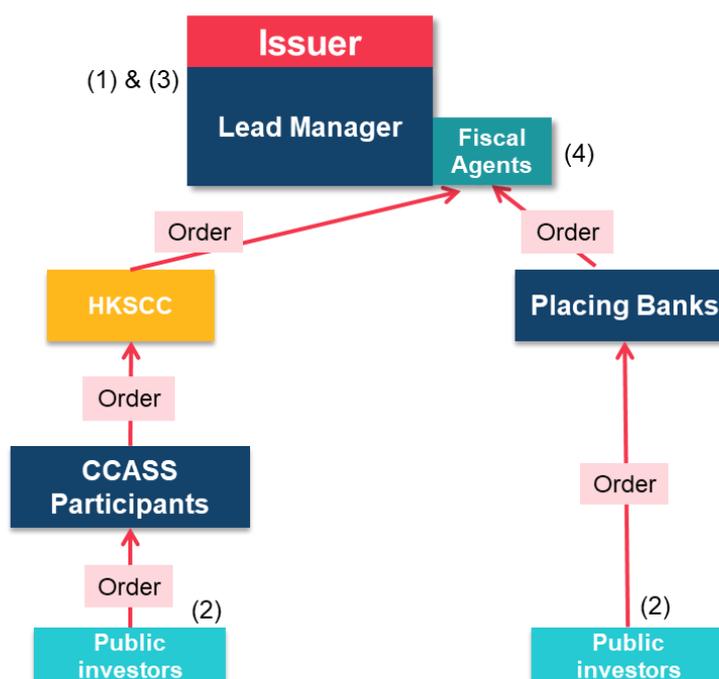
- (1) Public investors can apply to subscribe for the bond through participants in CCASS ("CCASS Participants") of Hong Kong Securities Clearing Company Limited ("HKSCC") or the placing banks. The offering terms and price of the retail bond will be determined and announced by the issuer and the lead manager before the subscription orders are collected.
- (2) Public investors who would like to invest in the bond can place orders through CCASS Participants to CCASS which is operated by HKSCC, or they can place orders through counters of the placing banks if the issuer intends to broaden the distribution channel through banks.
- (3) After the fiscal agent⁷ collects orders from all application channels on the pricing day, the bond will be allocated to investors according to a predetermined/specific allocation method stated in the offering circular.
- (4) After the allocation is completed, the fiscal agent will send the allotment results back to CCASS and the placing banks. Then the bonds will be allocated to allotted investors.

⁵ Source: HKEX.

⁶ See "HKEX welcomes first non-government retail bonds", News release on HKEX's website, 23 May 2019.

⁷ Fiscal agent is an agent who is appointed by the issuer to carry out paying and other administrative duties in relation to the bond issuance on the issuer's behalf. The principal responsibilities of the fiscal agent are to process payments to the bondholders, announce notices and other corporate actions of the issuer.

Figure 2. The approach for bonds issued to public investors only



As a side note, most of the bonds issued in the OTC market, targeting professional investors, are issued through “book-building” or tendering:

- Under **book-building**, the lead manager consolidates application orders from co-managers. The issuer and the lead manager confirm pricing of the bond and allocate bonds after the completion of “book building”.
- Under **tendering**, tenders may only be made by primary dealers. Any investors who wish to subscribe for the bond must tender through primary dealers. Applicants submitting tenders must indicate the quantity of the bonds applied for and the bid price. Successful bidders will be allotted the bonds at the price based on the tendering bidding methods. Single price Dutch auction and weighted average price American auction are the common tendering bidding methods in the OTC market.

2.2 Bond concurrently offered to professional investors and public investors

Steps involved in issuance (see Figure 3):

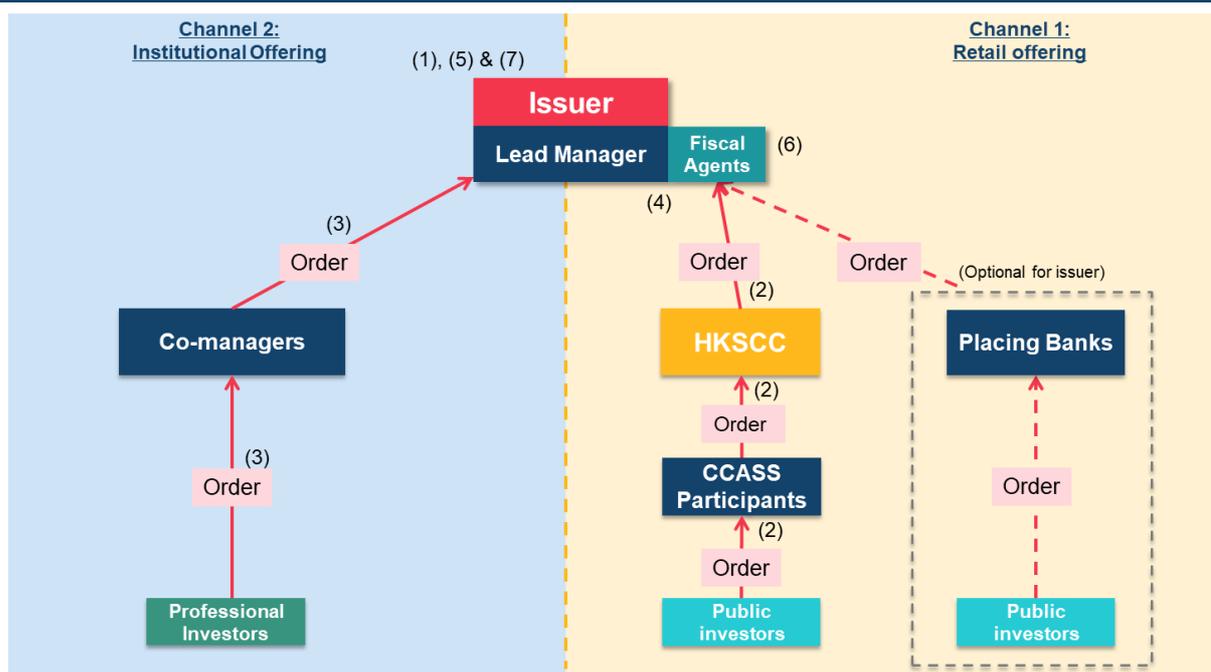
- (1) Issuers can use a concurrent offering method to issue bonds targeting both professional investors and public investors. The issuer can segregate the total issue size of the bond into two parts. One part will be available for public investors by submitting non-competitive orders⁸ through CCASS of HKSCC and the placing banks (**Channel 1: Retail Offering**⁹), and the other part will be available to professional investors only in the OTC market by book building/competitive tendering (**Channel 2: Institutional Offering**).

⁸ Non-competitive orders means investors submitting bids for non-competitive tender and indicate only the quantity they applied for. Successful bids will be allotted with bonds at a price set by the competitive tender for the same issuance in accordance with a set of allocation rules defined in the offering circular.

⁹ The offering via CCASS can be open to both public and professional investors.

- (2) Under Channel 1, the issuer should announce the key terms of the offering (e.g. maximum subscription amount, tenor, minimum yield or maximum price) before the application period starts. If public investors are willing to submit non-competitive orders through CCASS, they can place orders with specified subscription amount to CCASS Participants, which means they are considered willing to accept the final pricing, which will be determined after the application period ends.
- (3) Under Channel 2, the issuer should announce the price guidance range before book-building process of Institutional Offering. Professional investors will place competitive orders through co-managers.
- (4) The lead manager will collect orders of professional investors from co-managers and fiscal agents will collect orders of public investors from CCASS on the pricing day. This process is expected to take place on the business day after the closing of the application period of Retail Offering via CCASS and placing banks. The orders applied through CCASS and placing banks will be counted as part of orders with minimum pricing.
- (5) On the pricing day, the issuer will determine the final price with the lead manager based on the consolidated order book. If the valid orders under Channel 1 exceed the maximum subscription amount to public investors, the fiscal agent will be responsible for allocation based on the predetermined/specific allocation method stated in the offering circular. Otherwise, the valid orders via CCASS and placing banks through Channel 1 will be fully allocated, and the remaining subscription amount will be offered pursuant to those via Institutional Offering through Channel 2.
- (6) After the allocation is completed, the fiscal agent will announce the allotment results. Following this, the bonds will be allocated to allotted investors.
- (7) Although the bond is issued through two channels, both parts shall be consolidated and be treated as a single series upon issuance of the given bond.

Figure 3. The approach for bonds concurrently offered to professional investors and public investors



Source: HKEX.

(Please refer to Appendix on the general workflow of the bond issuance and listing process.)

3. LISTING APPLICATION OF PUBLICLY-OFFERED BONDS

The listing of bonds offered to the public in Hong Kong is governed by Chapters 22 to 36 of the Main Board Listing Rules (“Listing Rules”)¹⁰. Such bonds may be listed by multiple methods, such as “offer for subscription” and “offer for sale”.

3.1 Listing documents

The disclosure requirements are generally set out in Chapter 25 and Appendix 1 Part C (“Appendix 1C”) and, where relevant, Chapters 35 and 36 of the Listing Rules, with modifications/exemptions available to states, supranational, state corporations and banks set out in Chapters 31, 32, 33 and 34 of the Listing Rules respectively. In summary, Appendix 1C requires disclosure of:

- General information about the issuer;
- Information about the bonds to be listed;
- Information about the issuer’s capital, business activities and management; and
- Financial information about the issuer, including a consolidated capitalisation and indebtedness statement made up to a date normally not earlier than three months prior to the issue of the listing document.

The directors of the issuer are required to collectively and individually accept full responsibility for the listing document. A listing document should include a responsibility statement to this effect.

In addition, if the issuer is a company (incorporated in Hong Kong or overseas), the listing document is a prospectus under the laws of Hong Kong and will have to comply with the content requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (CO) and be registered with the Companies Registry. For details, please refer to Chapter 11A of the Listing Rules.

Figure 4. Application of relevant laws and Listing Rules for bond issuance in Hong Kong



¹⁰ Listing of bonds offered to the public in Hong Kong is also possible under Chapters 26 to 29 and Chapters 31 to 35 of the GEM Listing Rules. However, no issuer may list its debt securities on GEM unless its equity securities, or the equity securities of its holding company, are already listed on GEM or will be listed on GEM at the same time as the issuer’s debt securities. For present purposes, this paper only covers the listing of retail bonds on the Main Board of the SEHK.

3.2 Listing eligibility of bonds

3.2.1 Eligible issuers

A summary of the key qualifications for bond listing is given below. The general qualifications are set out in Chapters 23 and 29, and, where relevant, 35 to 36 of the Listing Rules. The general qualifications are modified or exempted for states (Chapter 31 of the Listing Rules), supranationals (Chapter 32 of the Listing Rules), state corporations (Chapter 33 of the Listing Rules) and banks (Chapter 34 of the Listing Rules).

Prospective issuers are encouraged to contact the Listing Division (“LD”) of the SEHK to seek guidance as to the eligibility of a proposed issue for listing at the earliest opportunity.

Table 1. Qualifications of eligible issuers		
General qualifications		
Shareholders' funds:	HK\$100m ^{Note A, Note B}	
Accountant's report:	<ul style="list-style-type: none"> Audited accounts for 3 financial years (reported by the reporting accountants)^{Note B} For new applicants, financial period ended not more than 9 months before date of listing document For overseas issuers, (i) accountant's reports at least conform with International Financial Reporting Standards (IFRS) and (ii) submit statement of adjustments for any discrepancy between figures in audited accounts and accountant's reports 	
Minimum amount raised:	HK\$50m	
Modifications/Exemptions available to certain types of issuers		
States/Supranationals	State Corporations ¹¹	Banks
Shareholders' funds: No requirements Accountant's report: No requirements	Accountant's report: <ul style="list-style-type: none"> HK-incorporated state corporations <ul style="list-style-type: none"> Audited accounts for 2 financial years (accountant's report not normally required)^{Note B} Financial period ended not more than 15 months before date of listing document Overseas-incorporated state corporations <ul style="list-style-type: none"> Audited accounts for 2 financial years (reported by the reporting accountants)^{Note B} Financial period ended not more than 15 months before date of listing document; or if >15 months, interim financial statements of not more than 9 months and statement of no material adverse change 	Accountant's report: <ul style="list-style-type: none"> Audited accounts for 2 financial years (reported by the reporting accountants)^{Note B} Financial period ended not more than 15 months before date of listing document; or if >15 months, interim financial statements of not more than 9 months and statement of no material adverse change

Notes: (A) This requirement does not apply if the shares of the issuer or, in case of a guaranteed issue, the guarantor are listed on the SEHK.

(B) In case of a guaranteed issue, the relevant requirement is met by the guarantor.

Source: The Listing Rules.

¹¹ State corporations include any company which is more than 50% owned by a state.

3.2.2 Eligible securities for investors

The following types of debt security may be listed on SEHK:

- **Corporate bonds:** Corporate bonds are debt securities issued by private and public corporations, e.g. listed companies or their subsidiaries may issue corporate bonds. When buying a corporate bond, investors are lending money to the corporation that issued it. The issuing corporation promises to return the principal on a specified maturity date to the bondholders. Until that time, the issuing corporation may pay the bondholders a stated rate of interest periodically, e.g. semi-annually.
- **Convertible bonds:** Convertible bonds have investment characteristics of both debt and equity securities. A convertible bond gives its holder the right to convert the bond into shares of the issuing corporation according to predetermined terms during a conversion period or at conversion dates.

Convertible bonds have the characteristics of debt securities, such as interest payments and a definite date upon which the principal must be repaid. They also offer possible capital appreciation through the right to convert the bonds into shares at the holder's option according to stipulated terms over certain periods.

- **Exchange Fund Notes (EFNs):** EFNs are Hong Kong dollar (HKD) fixed-income bonds issued by the Hong Kong Monetary Authority (HKMA) on behalf of the Hong Kong Special Administrative Region Government for the account of Hong Kong's Exchange Fund under the Exchange Fund Ordinance. Whenever the HKMA arranges the listing of an EFN on the SEHK, investors may participate in the tendering for the new issue. Investors should contact their brokers for details.

EFN trading is similar to stock trading and investors may trade EFNs through their usual stock accounts. Like all debt securities traded on the SEHK, EFNs are quoted in units of HK\$100 of their nominal value. The buyer of an EFN has to pay to the seller the accrued interest calculated from the last interest payment date to the settlement date¹².

- **Government/Supranational bonds:** These are debt securities issued by a government or supranational organisation.

3.3 Listing process

Steps involved:

- (1) **Appoint professional advisers:** Appoint professional advisers such as arranger banks, lawyers and accountants to prepare listing documents and accountant's report (where relevant). The issuer and its advisers should also consider the offering structure, pricing mechanism, market making arrangement, subscription process and other regulatory approvals required.
- (2) **Submit listing application:** The issuer should reach out to the LD to agree on the listing timetable and listing related matters at the earliest opportunity. The issuer is required to submit documents set out in Chapter 24 of the Listing Rules, including but not limited to the declaration and undertaking signed by each director of the issuer (Form B, Appendix 5 of the Listing Rules), by the prescribed timeframes.
- (3) **Vetting by the LD:** The first round of comments will be generally provided within 10 business days from the receipt of listing application. The listing timetable will depend on the issuer's response time and quality of response.

¹² For more information on EFNs, please refer to "Exchange Fund Notes Information for Investors" on the HKMA's website.

- (4) **Hearing by the Listing Committee (“LC”):** The LC will determine if it is suitable to proceed with the application.
- (5) **Registration of prospectus:** If required, the final listing document is registered with the Companies Registry.
- (6) **Marketing and application period:** Arranger banks will prepare a marketing process. Investors will then subscribe for the bonds.
- (7) **Listing:** After successfully pricing and allocation of the bonds to investors, the bonds will be listed on SEHK.

4. POST-TRADE ARRANGEMENT FOR DEBT ISSUANCE AND SETTLEMENT THROUGH CCASS

CCASS can facilitate the issuance of debt securities by the issuers to the public through the connection of more than 600 CCASS Participants built with their clients. It also provides all-rounded post-trade services such as clearing and settlement services for exchange trades and non-exchange trades as well as custody and nominee services including periodic interest payments and redemption for debt securities admitted into CCASS.

This section provides the guidance for issuers and relevant participants to make an application for primary offering of a debt security through CCASS.

4.1 Overview of HKSCC and CCASS

(1) About HKSCC

HKSCC, a wholly-owned subsidiary of HKEX, is deemed to have been recognised as a clearing house under Section 37(1) of the Securities and Futures Ordinance (Chapter 571).

HKSCC provides a full range of services, including securities clearing and settlement, electronic instructions for money settlement, depository and common nominee services and will accept securities listed or admitted to trading on the SEHK as eligible for deposit, clearing and settlement within CCASS only if the issuers comply with the securities eligibility requirements of HKSCC.

(2) About CCASS

CCASS is an electronic book-entry clearing and settlement system for transactions of securities listed or admitted to trading on the SEHK. CCASS is established and operated by HKSCC.

(3) CCASS eligible participants

Unless an issuer imposes any restriction on the eligibility criteria on the investors or intermediaries, CCASS Clearing Participants and Custodian Participants can usually apply via CCASS terminals for the debt securities issued via CCASS.

4.2 Account and beneficial ownership structure in CCASS for debt issuance

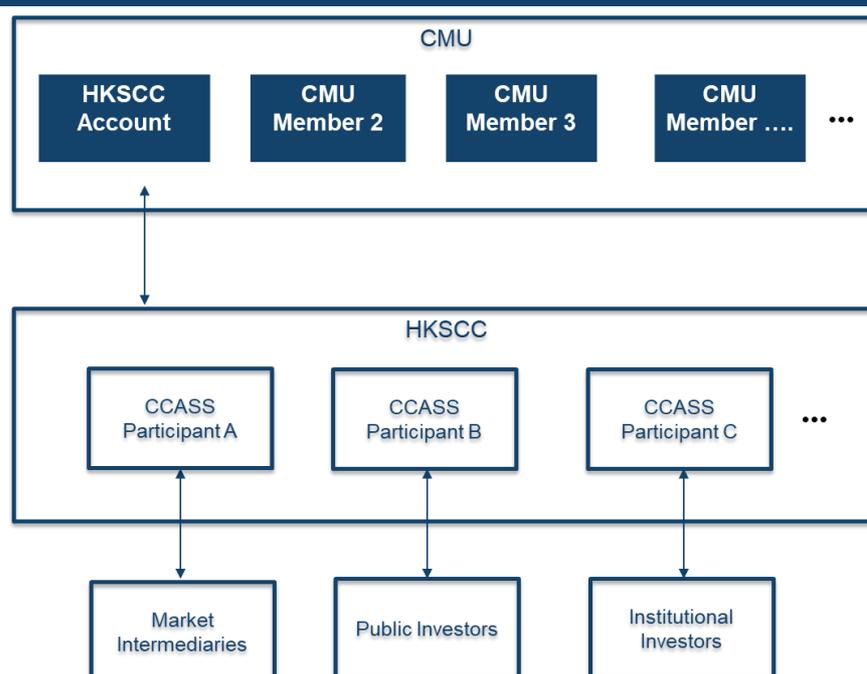
As long as the debt security is held in global form in the Central Moneymarkets Unit (CMU) as a CMU Instrument¹³, HKSCC has and holds interests in that CMU Instrument through its CMU account.

¹³ For the definition of “CMU Instrument”, please refer to the CCASS Rules available on the HKEX website.

CCASS Participants hold the beneficial interest in such securities for themselves, or as agents (except for investor participants where all securities held in an investor participant's account are deemed to be beneficially owned by the investor participant for its own account and not as agent or trustee for any other person), for their clients in their CCASS stock accounts opened with HKSCC.

When a sale or purchase transaction is made on the SEHK, a transfer of beneficial interest in such securities is affected by way of book-entry transfers across the CCASS stock accounts of the relevant CCASS Participants. Under this model, CCASS Participants acquire proprietary rights in respect of the securities for themselves or as an agent for their clients who are the underlying investors, and can create security interests over such securities freely.

Figure 6. Beneficial ownership structure in CCASS



Source: HKEX.

4.3 Transferring between CCASS and CMU

HKSCC is a CMU member who arranges to hold the debt securities for CCASS Participants in its account at CMU. CCASS Participants who are custodians of the debt securities in CCASS hold the interests in the debt securities through HKSCC's electronic record of holding of the debt securities at CMU. Investors will rely on the CCASS Participant's record to prove its interest in the debt securities. Through this account structure, interest payments and principal payments will be paid by the issuer to the CMU account holders including HKSCC. HKSCC will distribute the payments received to its CCASS Participants pursuant to its electronic record of holding. CCASS Participants in turn will distribute the same to their client investors.

Through the connection between HKSCC and CMU, HKSCC can provide transfer service of debt securities to international investors by way of transfer instructions. In this way, debt securities held in CCASS can be sold on the SEHK conveniently and the CMU membership held by HKSCC makes the transfer of debt securities (if they are Eligible Securities in CCASS and are CMU instruments) between CCASS and other CMU members (mainly banks) as simple as submitting a transfer instruction to CCASS.

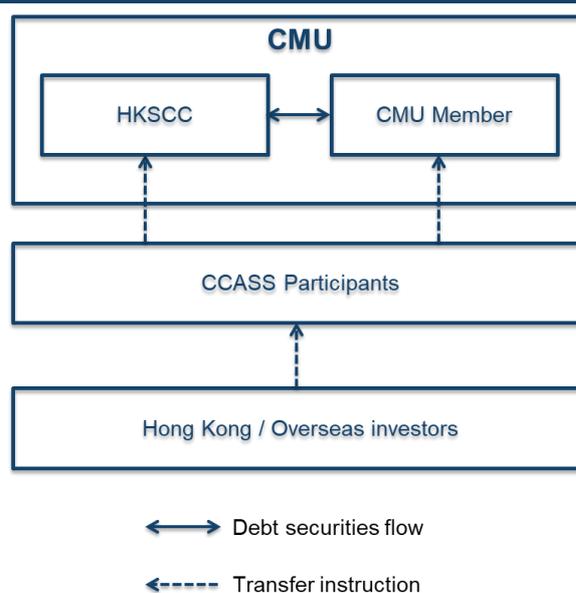
To complete the transfer of debt securities between CCASS and CMU, CCASS Participants need to complete a Transfer Instruction Form (CCASS-Form 18, 19, 20 or 21) for each transfer of debt securities:

- (1) CCASS Participants need to submit the completed CCASS-Form 18 or 20 to HKSCC before 12:00 noon (or such other time as may be specified by HKSCC) on a business day for transfer to be effected on a “Delivery versus Payment” (DVP) basis in CMU on the same day; or
- (2) CCASS Participants need to submit the completed CCASS-Form 19 or 21 to HKSCC before 2:00 p. m. (or such other time as may be specified by HKSCC) on a business day for the transfer to be effected on a “Free of Payment” basis in CMU on the same day.

HKSCC reserves the right not to process any transfer instructions received after the deadline specified by HKSCC. In such circumstances, late transfer instructions will have to be re-submitted to HKSCC on the next business day¹⁴.

If a CCASS Participant who wishes to utilise the bonds transferred from a CMU account to settle Exchange Trades and/or Settlement Instructions¹⁵ in CCASS, such CCASS Participant needs to submit the transfer instruction to HKSCC at least one business day before the settlement day.

Figure 7. The transferring of debt securities between HKSCC and CMU member



Source: HKEX.

4.4 CCASS admission process (for issuers)

(1) Documents

As soon as possible after a listing application is made to the LD by the issuer, the issuer is required to provide the following documents, if applicable, and the revised versions thereof from time to time, to HKSCC for review and comment:

- Offering circular

¹⁴ For details, please refer to the CCASS Operational Procedures (Sections 9, 12, 14 and 17), available on the HKEX website.

¹⁵ For definitions of “Exchange Trade” and “Settlement Instruction”, please refer to the Rules of the Exchange, available on the HKEX website.

- Announcements
- Any other documents as requested by HKSCC

(2) CCASS Admission Agreement

For admission of a debt security to CCASS, the issuer and HKSCC are required to execute an agreement (the “CCASS Admission Agreement”) which specifies the CCASS admission requirements, the obligations of the issuer, the role of the issuer and HKSCC in the debt security’s primary offering and the scope of services to be provided by HKSCC. This may take two to four weeks for finalising the terms and obtaining management approval for execution of the CCASS Admission Agreement.

(3) System interface testing

The issuer or its fiscal agent and HKSCC are required to agree on the file layout of system interface files (including application file and allocation file) and conduct an interface test or a health check so as to ensure the fiscal agent’s system is ready.

Subject to whether any system enhancement is required, it may take more than four weeks to complete.

(4) Accrued interest

Debt securities are normally traded on the SEHK at a clean price, meaning that the trade price is exclusive of accrued interest. CCASS will automatically add the accrued interest onto the trade value to come up with the final settlement amount, where the buyer of the debt security will pay to the seller the purchase price plus an amount equal to the interest accrued from, where applicable, the issue date or the last interest payment date (including that day) to the settlement date (not including that day).

As such, the issuer is required to confirm the algorithm of accrued interest with HKSCC and provide the exact accrued interest amount on each settlement day during the tenor to HKSCC for reconciliation as may be required by HKSCC.

(5) CCASS Operation Memorandum

The CCASS Operation Memorandum sets out the operational flow and procedures that are to be followed in relation to the issue of a retail offering of the debt securities by HKSCC and the issuer and its agent(s).

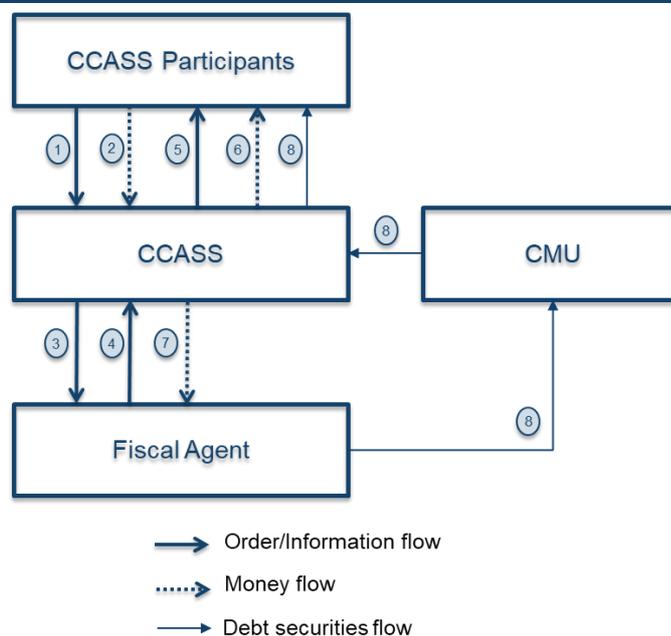
(6) Eligible currencies

The trading currency of the debt security should be a currency which is from time to time and for the time being accepted by HKSCC as being a currency in which an Eligible Security may be traded and settled. Currently, HKD, Renminbi (RMB) and USD are eligible currencies in CCASS.

4.5 CCASS tender services for debt securities (for CCASS Participants)

4.5.1 Workflow of the tender process through CCASS

Figure 8. Tender and settlement process of bond issuance via CCASS



Steps:

- (1) CCASS Participants submit tender applications to CCASS during application period.
- (2) Application monies will be collected from CCASS Participants' designated bank accounts by Direct Debit Instruction (DDI) on closing day.
- (3) After DDI confirmed good fund, HKSCC sends formal application to fiscal agent with detailed application file on the business day following the closing date.
- (4) Fiscal agent sends allocation file to HKSCC after eligibility checking of applications, if applicable, and price/coupon fixing on the business day before the Results Announcement and Refund Date.
- (5) Allotment results available in CCASS at the start of the Results Announcement and Refund Date.
- (6) Refund of application monies for partly or wholly unsuccessful applications will be made to the CCASS Participants' designated bank accounts by Direct Credit Instruction (DCI) at day-end on the Results Announcement and Refund Date.
- (7) HKSCC settles allotted debts and application monies with fiscal agent on the Issue and Settlement Date.
- (8) Fiscal agent arranges the debt securities to be issued in CMU and credit the debt securities into the CMU account of the allotted CMU member. HKSCC credits CCASS Participants' stock accounts in CCASS with the debt securities upon receipt of the same at HKSCC's account in CMU on the Issue and Settlement Date.

4.5.2 CCASS operating hours in the application period

CCASS Participants can make applications for their clients who are eligible applicants (eligibility is determined by the issuer, if applicable) by using the existing tendering service provided by CCASS either through (1) online input or (2) batch upload at the following times subject to the issuer's timetable. No tender service is available on Sundays and public holidays in Hong Kong.

Table 3. Application windows for online input		
Commencement date	Application period (except commencement date and closing date)	On closing date
<ul style="list-style-type: none"> • 9:00 a.m. – 7:00 p.m. 	<ul style="list-style-type: none"> • 8:00 a.m. – 7:00 p.m. (Monday to Friday) • 8:00 a.m. – 1:00 p.m. (Saturday) 	<ul style="list-style-type: none"> • 8:00 a.m. – 3:45 p.m.

Table 4. Timetable for the validation of application instructions submitted via batch upload		
During the application period, except closing date		On closing date
Monday to Friday (except public holidays):	Saturday (except public holidays):	<ul style="list-style-type: none"> • 1st validation run: around 11:30 a.m. • Final validation run: around 1:30 p.m.
<ul style="list-style-type: none"> • 1st validation run: around 11:30 a.m. • 2nd validation run: around 1:30 p.m. • Final validation run: around 7:00 p.m. 	<ul style="list-style-type: none"> • 1st validation run: around 10:00 a.m. • Final validation run: around 1:00 p.m. 	<ul style="list-style-type: none"> • 1st validation run: around 11:30 a.m. • Final validation run: around 1:30 p.m.

Note: On the closing date, application instructions cannot be uploaded via batch upload and successfully validated at the final validation run, and so they should be inputted through online input.

4.5.3 Workflows for giving tender application instructions during application period

(1) Enquiry of authorised tender announcement

CCASS Participants can enquire if there is any primary offering of a debt security by making an enquiry via CCASS Terminal. CCASS Participants may also refer to the “New Issue Reminder (Tendering)” section in the “New Issues Entitlement Report” which is generated at day end on a daily basis.

(2) Application by way of online input

Figure 9. Online input procedure of tender application



Source: HKEX.

CCASS Participants can input application instructions through the online input function in CCASS, “Add Tender Instruction”, during the application period. If the debt security is offered on a non-competitive pricing basis in CCASS, the input of the “Price Bid” is not required. The application amount will be calculated by the system and displayed on the input screen after the application quantity has been entered.

For a detailed description of the input/enquiry screen, please refer to Section 8. 2. 9 “Tender Instruction Maintenance” of the CCASS Terminal User Guide for Participants¹⁶.

(3) Application by way of file upload

Figure 10. File upload procedure of tender application



Source: HKEX.

Instead of making applications one-by-one via online input, CCASS Participants can also use the file upload function in CCASS to upload one or more files of application

¹⁶ Please refer to the following link for the “Terminal User Guide for Participants”:
https://www.hkex.com.hk/Services/Clearing/Securities/Infrastructure/CCASS-Terminal/CCASS-and-CCMS-Terminal-User-Guide-for-Participant?sc_lang=en

instructions in a batch to CCASS through the “Tender Instruction Batch File Upload” function.

The format of the uploaded files can be found in Section 5.12 “Tender Instruction Batch File Layout” of the CCASS Terminal User Guide for Participants.

CCASS will verify the uploaded files and generate Tender Instruction Batch Input Control Report to display the status of the uploaded files.

(4) Enquiry of authorised applications

Authorised applications will be shown on the “New Issues Application Input Activities Report” and the status of application instructions can be enquired via the “Enquire Tender Instruction” function in CCASS.

4.5.4 Money settlement

(1) Flow of money settlement

Table 5. Flow of money settlement on different dates	
Date	Money flow
Application Period End Date	CCASS Participants’ designated bank accounts are debited by HKSCC for collecting the application monies by DDI.
Results Announcement Date and Refund Date	HKSCC will refund the application monies for partly or wholly unsuccessful tender applications to the CCASS Participants’ designated bank accounts by direct credit instruction (DCI).
Issue and Settlement Date	HKSCC will settle the application monies with the issuer or its fiscal agent for the allotted amount of debt securities.

HKSCC will collect the application monies for the tender applications from CCASS Participants’ designated bank accounts on the closing date of the application period. Depending on the timetable of the issuer of the debt securities, the refund for the partly or wholly unsuccessful tender applications will be credited to CCASS Participants’ designated bank accounts on the Results Announcement Date and Refund Date (these have to be the same date) and the application monies for the allotted debt securities will only be transferred to the designated bank accounts of the issuer or its fiscal agent on the Issue and Settlement Date of the debt securities by HKSCC. (See also Section 4.5.1 above.)

(2) Settlement accounts arrangement

For effecting CCASS money settlement, each CCASS Participant must maintain a general-purpose designated bank account in its own name and denominated in HKD (which may be a current account or other account approved by HKSCC from time to time) with a Designated Bank¹⁷. Each CCASS Participant who wishes to settle money obligations in CCASS in an eligible currency other than HKD must maintain a designated bank account in its own name and denominated in that Eligible Currency for the settlement of money obligations in CCASS.

¹⁷ Please visit HKEX website for the lists of banks which are approved by HKSCC as Designated Banks for CCASS Participants (other than Investor Participants).

All participants must obtain their Designated Bank's and HKSCC's prior written approval for the use of their designated bank accounts for CCASS money settlement.

5. FEES AND CHARGES¹⁸

5.1 Listing fee

In the case of a new listing of debt securities on or after 1 July 2002, whether by a new applicant or otherwise, the amount of listing fees depends on the term of such debt securities until maturity and its issue amount.

(1) Stand-alone debt securities

Maturity	Issue amount		
	≤ HK\$100m	> HK\$100m and ≤ HK\$500m	> HK\$500m
< 2 years	HK\$10,000	HK\$12,500	HK\$24,000
2 years to 5 years	HK\$20,000	HK\$25,000	HK\$39,000
> 5 years to 10 years	HK\$25,000	HK\$30,000	HK\$55,000
> 10 years	HK\$25,000	HK\$30,000	HK\$55,000
	Plus an additional HK\$5,000 per each year or part year that the term of the debt security exceeds 10 years, provided that the total listing fee does not exceed the cap shown below		
Listing fee cap	HK\$60,000	HK\$70,000	HK\$90,000

(2) Debt issuance programmes

In the case of an application in respect of a new listing, a continuance or an increase in the size of a debt issuance program, the listing fee for the programme is HK\$15,000. The listing fee for any new issue of debt securities under the debt issuance programme shall be 70% of the listing fee payable for stand-alone debt securities, rounded upwards to the nearest HK\$1,000.

Maturity	Issue amount		
	≤ HK\$100m	> HK\$100m and ≤ HK\$500m	> HK\$500m
< 2 years	HK\$7,000	HK\$9,000	HK\$17,000
2 years to 5 years	HK\$14,000	HK\$18,000	HK\$28,000
> 5 years to 10 years	HK\$18,000	HK\$21,000	HK\$39,000
> 10 years	HK\$17,500	HK\$21,000	HK\$38,500
	Plus an additional HK\$3,500 per each year or part year that the term of the debt securities exceeds 10 years, provided that the total listing fee does not exceed the cap shown below		
Listing fee cap	HK\$42,000	HK\$49,000	HK\$63,000

¹⁸ Please visit HKEX website for more details of the fee schedule.

5.2 Post-trade fees for various functions

The fees in post-trade may vary depending on business functions used. Below are the major fee items that may be involved in post-trade:

- The **handling fee** for each Tender Instruction is HK\$5.
- The **clearing and settlement fee** schedule for Exchange Trades and non-Exchange Trades for debt securities is the same as that for equities.
- The **handling fee for redemption** is HK\$30 per instruction/announcement.
- The **transfer fee for each transfer instruction** relating to a transfer between a CCASS Participant and a recognised dealer in CMU or between a CCASS Participant and a CMU Member is 0.002% of the gross value of the securities subject to a minimum fee of HK\$2 and maximum fee of HK\$100 and any out-of-pocket expenses incurred by HKSCC.
- The **clearing fee for each transfer instruction** submitted by a CCASS Participant is HK\$1.
- The **custody fee** is 0.012% per annum on the nominal value calculated on a daily basis, subject to a maximum of HK\$300,000 per month per CCASS Participant.
- The **interest collection service fee** is 0.12% of the aggregate cash amount of interest per debt security paid to CCASS Participant in one currency on the same day, subject to a maximum fee of HK\$10,000 (or its equivalent in foreign currencies).

ABBREVIATIONS

CCASS	Central Clearing and Settlement System
CMU	Central Moneymarkets Unit of the HKMA
LD	Listing Division of HKEX
Listing Rules	The SEHK Main Board Listing Rules
OTC	Over-the-counter
SEHK	The Stock Exchange of Hong Kong Limited
HKEX	Hong Kong Exchanges and Clearing Limited
HKMA	Hong Kong Monetary Authority
HKSCC	Hong Kong Securities Clearing Company Limited

APPENDIX. GENERAL FLOW OF BOND ISSUANCE AND LISTING PROCESS IN HONG KONG

Table A1. Typical workflow in the bond issuance and listing process through CCASS			
Step	Stage	Parties involved	Reference in this paper
1	Pre-issuance preparation	Issuers, lawyers, lead managers and co-managers	—
2	Listing application	LD, issuers, lawyers	Section 3
3	CCASS admission	HKEX Post Trade Department, lawyers, fiscal agents	Section 4.4
4	Announcement	Issuers, lawyers, lead manager	—
5	Application period (Launch)	HKEX Post Trade Department, lead managers, co-managers, investors	Steps 1 to 3 in Figure 8
6	Application period (Closing date)	HKEX Post Trade Department, lead managers, co-managers, investors	
7	Order consolidation	HKEX Post Trade Department, lead managers, co-managers, fiscal agents	
8	Pricing and allocation	Issuers, lawyers, underwriters	Section 2 for pricing; steps 4 to 6 in Figure 8 for bond allocation in CCASS
9	Settlement and issuance	HKEX Post Trade Department, lead managers, placing banks, fiscal agents	Steps 7 to 8 in Figure 8
10	Listing	LD	Section 3

Note: This table describes the typical workflow of the bond issuance and listing process through CCASS. The actual issuance process, while principally similar, may differ across different bond issuances.

Disclaimer

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