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Hong Kong promotes the development of the digital bond market with the Digital Bond Grant Scheme

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Introduction

On 28 November 2024, the Hong Kong Monetary Authority ("**HKMA**") published details of the *Digital Bond Grant Scheme* (the "**DBGS**"). The DBGS was first introduced by the Chief Executive's 2024 Policy Address (the "**Policy Address**") on 16 October 2024 to encourage more financial institutions and issuers to adopt tokenisation technology in capital markets transactions. The DBGS provides subsidies to cover eligible digital bond issuance expenses incurred by an issuer in a primary issuance of digital bonds[1]. The HKMA will start accepting applications from 28 November 2024, with an initial period of three years, and applications can be made for bonds issued on or after the Policy Address announcement (i.e. 16 October 2024). Further details of the DBGS are provided below.

1. Two-tier Grant Structure

The DBGS covers 50 per cent. of the Eligible Expenses (as defined below) for each digital bond issuance, up to:

(a) **Half Grant**: HK$1.25 million subsidy if such issuance meets the Basic Requirements (see section 2 below); or

(b) **Full Grant**: HK$2.5 million subsidy if such issuance meets the Basic Requirements (see section 2 below) and all the Additional Requirements (see section 3 below).

2. Basic Requirements

Basic Requirements: Eligibility Criteria (award Half Grant of up to HK$1.25 million if the Basic Requirements are met)		
To qualify for the Half Grant, the digital bond must:		
(a)	**be issued in Hong Kong; and**	i.e. half or more of the involved lead arranger(s) must be recognised arrangers (i.e. arrangers with substantial debt capital markets operations in Hong Kong). *This eligibility criteria is in line with the HKMA's Green and Sustainable Finance Grant Scheme ("**GSFGS**"). Both the DBGS and the GSFGS*

[1] Eligibility of a bond issuance as a "digital bond" will be determined on a case-by-case basis. In general, "digital bond" refers to a bond that leverages distributed ledger technology ("**DLT**") for digital representation of ownership, which could include, for example, legal titles and/or beneficial interests in the bond.

Leading from the front

Linklaters is at the forefront of digital securities innovations, having advised on many ground-breaking digital securities issuances in Asia and globally, including:

- The first tokenised bond governed by Hong Kong law by **HKSAR Government**
- The world's first multi-currency digital green bond by **HKSAR Government**
- The first digitally native notes listed on HKEX by a HKSAR corporate by **HSBC**
- The first issuance of self-created financial assets on the public blockchain by a major Chinese brokerage firm **GF Securities**
- The first tokenised structured notes on a public blockchain in Hong Kong by **BOCI**
- The first cross-border tokenised financing transaction for **Ant Digital Technologies**
- Inaugural issuance of digitally native securities on the new D-FMI DLT platform developed by Euroclear Bank by the **World Bank**

		will share the same list of recognised arrangers.
(b)	**meet either one of the following conditions:**	(i) issued on a DLT platform operated by the Central Moneymarkets Unit ("**CMU**")[2]; or (ii) the team involved in the development and/or operations of the DLT platform and other digital aspects of the issuance ("**digital team**") must have substantial Hong Kong presence. *The extent to which a digital team is considered to have substantial presence in Hong Kong will be determined on a case-by-case basis, taking into account factors such as the size and composition (including seniority) of the team based in Hong Kong. Such team could comprise, but are not limited to, roles in project/business management, information technology, engineering, operations, legal and compliance, issuer services, securities services, etc. The HKMA may also consider other factors that can demonstrate the Hong Kong nexus of the relevant DLT platform.*

3. Additional Requirements

Additional Requirements: Eligibility Criteria (award Full Grant of up to HK$2.5 million if the Basic Requirements and all the Additional Requirements are met)		
To qualify for the Full Grant, the digital bond must, in addition to meeting the Basic Requirements, be:		
(a)	**issued on a DLT platform provided by an entity that is not an associate of the issuer;**	For the purpose of the DBGS, the issuer's "associate" generally refers to (i) a person/corporation over which the issuer has control; (ii) a person/corporation which has control over the issuer; or (iii) a person/corporation that is under the control of the same person/corporation as the issuer; but does not include persons/corporations which are associated merely because of common ownership by the central government of a country or its sovereign wealth funds or similar state-owned enterprises but in practice operate

[2] Eligibility of a DLT platform as a platform operated by the CMU will be determined on a case-by case basis. For example, the HKSAR Government's digital green bond issuance in February 2024 involved an DLT platform operated by the CMU as an extension of the CMU, used for, including but not limited to, the issuance, settlement, transfer, redemption and cancellation of the digital bonds.

		independently as separate commercial entities.
(b)	**issued at a minimum issuance size of HK$1 billion (or equivalent);**	All tranches of the same digital bond issuance may be combined, if applicable.
(c)	**issued, at issuance, to five or more investors; and**	Such investors would exclude any person who is an associate of the issuer or DLT platform provider(s) of the issuance.
(d)	**listed in Hong Kong.**	This would be a listing on (i) The Stock Exchange of Hong Kong Limited ("**SEHK**") or (ii) virtual asset trading platform(s) ("**VATPs**") licensed by the Securities and Futures Commission ("**SFC**") of Hong Kong.

4. Eligible Expenses

The following costs ("**Eligible Expenses**") incurred by the issuer in respect of an eligible issuance are eligible for reimbursement[3]:

(a) fees to DLT platform providers, excluding DLT platform providers that are associates of the issuer;

(b) fees to Hong Kong-based arrangers, excluding arrangers that are associates of the issuer;

(c) fees to Hong Kong-based legal advisers;

(d) fees to Hong Kong-based auditors, accountants and rating agencies;

(e) listing fees to the SEHK or VATPs licensed by the SFC; and

(f) CMU lodging and clearing fees.

5. Other Considerations and Application Process

Issuers, lead arranger(s) and/or DLT platform provider(s) that are interested in the DBGS should note the following additional considerations and application process:

- There is a maximum subsidy under the DBGS of two digital bond issuances per issuer (including its associates).
- If the digital bond is also a green, social, sustainability, sustainability-linked or transition bond, subject to meeting the eligibility requirements under the applicable grant scheme(s), (i) the eligible general bond issuance costs can be covered by either the DBGS or Track I of the GSFGS, up to HK$2.5 million, but not both; (ii) the external sustainability

[3] Expenses covered by other grant scheme(s) in Hong Kong or outside Hong Kong will be excluded.

review costs can be covered by Track II of the GSFGS, up to HK$800,000 for all pre-issuance and post-issuance external reviews combined.

- A pre-application consultation is available. Prior to or after the issuance, the issuer, the lead arranger(s) and/or the DLT platform provider(s) may initiate a pre-application consultation with the HKMA via dbgs@hkma.gov.hk before submitting the formal application. The HKMA will give a no-objection if it is satisfied that, based on the preliminary information provided, the relevant eligibility requirements are met.
- A formal application may be made by the issuer, the lead arranger(s) and/or the DLT platform provider(s) within three months after the digital bond is issued. Applicants may obtain the DBGS Application Form from the HKMA via dbgs@hkma.gov.hk.

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